

REPORT OF THE AUDITOR-GENERAL ON COUNTY EXECUTIVE OF KAKAMEGA FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of County Executive of Kakamega set out on pages 1 to 98, which comprise of the statement of assets and liabilities as at 30 June 2018, and the statement of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of County Executive of Kakamega as at 30 June 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the County Government Act, 2012 and Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Lack of Assets Register

The acquisition of assets of Kshs.3,061,621,468 includes non-financial assets amounting to Kshs.1,162,234,426 capitalised during the year under review to bring the total assets to Kshs.7,029,426,326 as at 30 June 2018 as reflected in the summary of fixed assets register at annexure 5 of the financial statements. However, no assets register, either in hard copy or electronic form was maintained during the year under review for effective administration of assets acquired since inception and those inherited from the defunct local authorities.

Consequently, the completeness, accuracy and existence of the assets balance of Kshs.7,029,426,326 as at 30 June 2018 could not be confirmed.

2. Differences Between Financial Statements Figures and IFMIS Figures

The financial statements submitted for audit revealed variances with the IFMIS report in both receipts and payments. The financial statements reflected total receipts of Kshs.11,640,760,648 as compared to Kshs.12,172,060,577 in the IFMIS report resulting to an unreconciled variance of Kshs.531,299,929. The total payments as per financial statements amounted to Kshs.11,564,266,806 as compared to IFMIS report

figure of Kshs.11,586,944,614 resulting to an unexplained variance of Kshs.22,677,808 as shown below:

| Item | IFMIS Amount (Kshs) | Financial Statement (Kshs) | Variance (Kshs) |
|--|--------------------------|----------------------------|------------------------|
| Receipts | | | |
| Exchequer Releases | 11,281,305,475.00 | 9,935,800,000.00 | 1,345,505,475.00 |
| Transfers From Other Government Entities | 418,169,404.00 | 845,452,642.00 | -427,283,238.00 |
| Other Receipts | 446,865,749.65 | 504,760,810.00 | -57,895,060.35 |
| Returns of Equity Holdings | - | 177,508,731.00 | -177,508,731.00 |
| Proceeds From Domestic & Foreign Grants | 25,719,948.00 | 177,238,465.00 | -151,518,517.00 |
| Total | 12,172,060,576.65 | 11,640,760,649.00 | 531,299,928.65 |
| Payments | | | - |
| Item (IFMIS) | Total | Total | Variance (Kshs) |
| Compensation of Employees | 6,261,813,353.60 | 4,571,436,148.00 | 1,690,377,205.60 |
| Acquisition of Assets | 2,444,356,692.00 | 3,061,629,468.00 | -617,272,776.00 |
| Use of Goods and Services | 1,476,828,162.75 | 1,651,089,390.00 | -174,261,227.25 |
| Transfers to Other Government Units | 1,043,775,797.00 | 1,001,980,538.00 | 41,795,259.00 |
| Other Grants and Transfers | 104,599,500.00 | 825,668,304.00 | -721,068,804.00 |
| Other Payments | 255,571,108.50 | 451,669,702.00 | -196,098,593.50 |
| Finance Costs, Including Loan Interest | - | 793,256.00 | -793,256.00 |
| Total | 11,586,944,613.85 | 11,564,266,806.00 | 22,677,807.85 |

In addition, it was noted from the National Treasury quality review notes that the financial statements reflected total budget for year under review of Kshs.12,905,263,573 which differed with the IFMIS reports budget figure of Kshs.6,433,650,649, resulting into un-reconciled variance of Kshs.6,471,612,924.

Consequently, accuracy of the financial statements for the year ended 30 June 2018 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the County Executive of Kakamega in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

Budgetary Control and Performance

1.1 Budget Absorption

During the year under review, the County Executive had an approved budget of Kshs.12,905,263,573 which comprised of recurrent vote budget of Kshs.7,280,877,597 and a development vote budget of Kshs.5,624,385,976. During the same period, the Executive recorded expenditure of Kshs.11,564,266,806 resulting to an overall under-absorption of Kshs.1,340,996,768 or approximately 10% as summarized below:

| Vote | Approved Budget 2017/2018 (Kshs) | Actual Expenditure 2017/2018 (Kshs) | Under- Absorption (Kshs) | Under- absorption as % |
|--------------|---|--|---|---------------------------------------|
| Development | 5,624,385,976 | 4,339,760,729 | 1,284,625,247 | 23 |
| Recurrent | 7,280,877,597 | 7,224,506,076 | 56,371,521 | 1 |
| Total | 12,905,263,573 | 11,564,266,805 | 1,340,996,768 | 10 |

The under-absorption of the approved budget is an indication that some activities and projects in the annual plan were not implemented by the County Executive. This is likely to have negative effects on delivery of services to the residents of Kakamega County. There is, therefore, need for the management to re-look at its budget implementation mechanisms with a view to focus on priority areas that will enhance service delivery to the residents.

1.2 Local Revenue Collection Performance

The statement of receipts and payments reflects local revenue amount of Kshs.504,760,810 against the budgeted amount of Kshs.774,571,849 resulting to under collection of Kshs.269,811,039 or approximately 35% of the budget. Further, the local revenue budget and actual collection in the last four years has been on the decline as shown below:

| Year | Budgeted Revenue (Kshs) | Actual Revenue Collected from Own Sources (Kshs) | Variance (Kshs) | Variance % |
|-------------|--|---|----------------------------|-----------------------|
| 2014/2015 | 903,537,623 | 516,889,025 | (386,648,598) | 43% |
| 2015/2016 | 1,000,000,000 | 504,238,292 | (495,761,708) | 50% |
| 2016/2017 | 894,070,561 | 449,487,475 | (444,583,086) | 50% |
| 2017/2018 | 774,571,849 | 504,760,810 | (269,811,039) | 35% |

The management did not explain the specific measures being put in place to ensure that all the budgeted revenue is collected and accounted for to enhance service delivery to the residents. Consequently, the continued decline in budgeted local revenue and its collection may hamper or compromise service delivery.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Report of the Auditor-General on the Financial Statements of County Executive of Kakamega for the year ended 30 June 2018

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Transfers to Other Government Entities

The transfers to other government units amount of Kshs.1,001,980,538 includes transfer to County Assembly of Kshs.893,516,738 as compared to the budgeted amount of Kshs.883,457,978 thus exceeding by Kshs.10,058,760. However, no reason or authority approving the excess transfer of Kshs.10,058,760 was provided for audit review.

Consequently, the propriety of the excess transfer of Kshs.10,058,760 for the year ended 30 June 2018 could not be confirmed.

2. Linda Afya ya Mama na Mtoto Programme Pending Payments

The Linda Afya ya Mama na Mtoto (Oparanya Care) program was started with the objective of reducing child malnutrition and new born mortality. The needy mothers for financial support were to be identified after attending ante natal clinic for at least four times. The support was to be provided in at least six stages at the rate of Kshs.2,000 in each stage until the new born attains the age of 18 months.

As at the time of audit in November 2018, a total of Kshs.269,331,840 was due and payable to 30,716 mothers as shown below:

| | Number of Mothers | No of Stages Unpaid to Mothers | Amount (Kshs) |
|--------------|-------------------|--------------------------------|--------------------|
| | 3,460 | 1 | 7,162,200 |
| | 3,986 | 2 | 16,502,040 |
| | 3,581 | 3 | 22,238,010 |
| | 3,519 | 4 | 29,137,320 |
| | 3,159 | 5 | 32,695,650 |
| | 13,011 | Pending Verification | 161,596,620 |
| Total | 30,716 | | 269,331,840 |

No verifiable reason has been provided for non-payment of the above amounts although the program was still holding Kshs.22,986,084 in bank as at 30 June 2018. In addition, during the year under review, the program did not enrol any new mothers to the program implying that mothers eligible for enrolment to the program missed out. Although it was explained that the non-enrolment was due to budget constraints, no indication has been given of the measures being made to ensure the program operates as envisaged.

Consequently, the objectives of reducing child malnutrition and new born mortality may not be achieved.

3. Rehabilitation of Malimili Market

Included in acquisition of assets figure of Kshs.3,061,629,469 is an amount of Kshs.2,804,694 paid to a construction firm in respect of rehabilitation of Malimili Market. The payment which was equivalent to the contract sum was paid in full but the following works were not completed satisfactorily;

(i) Fence and Gate

According to the bills of quantities (BQs), the concrete poles for fencing were to be of 150mm by 150mm instead of 120mm by 120mm that were used. The chain link fence was 1.8m high instead of 2.4m specified by the BQs. Further, two pedestrian steel gates of 2000mm by 2500mm were to be installed but instead of only one of 900mm by 2000mm was installed.

(ii) Revenue Office

The roof was to have 9 galvanised corrugated iron sheets instead of 9 iron sheets used. The revenue office had only one window of size 900mm by 1200mm instead of two windows of size 1200mm by 1500mm specified by the bill of quantities.

Consequently, the residents of Kakamega County did not get value for Kshs.2,804,694 incurred on the project during the year ended 30 June 2018.

4. Project Implementation Status

Records availed for audit review indicated that eleven (11) departments had planned to implement five hundred and twenty six (526) projects during the year under review out of which only one hundred and twenty three (123) projects valued at Kshs.1,300,466,560 were completed, three hundred and eleven (311) valued at Kshs.2,840,153,325 were on going as at the time of audit in November 2018, ninety one (91) projects budgeted for Kshs.127,718,133 had not started while one project valued at Kshs.675,073 had stalled and the contractor was not on site as detailed below:

| No | Department | No. of Planned Projects | Stalled/Abandoned | | Not Started | | Ongoing | | Completed | |
|----|--------------------------------------|-------------------------|-------------------|--------------|-------------|---------------|---------|------------------|-----------|----------------|
| | | | No | Value (Kshs) | No | Value (Kshs) | No | Value (Kshs) | No | Value (Kshs) |
| 1 | Agriculture | 33 | 0 | - | 7 | 18,409,000.00 | 15 | 79,663,402.00 | 11 | 179,474,826.00 |
| 2 | Health Services | 13 | 0 | - | 0 | - | 13 | 1,774,697,557.00 | 0 | - |
| 3 | Roads, Infrastructure & Public Works | 345 | 0 | - | 73 | 59,909,133.75 | 219 | 524,665,045.07 | 53 | 241,606,320.98 |

| | | | | | | | | | | |
|----|---------------------------------------|------------|-------------|-------------------|--------------|-----------------------|--------------|-------------------------|--------------|-------------------------|
| 4 | Education, Science & Technology | 51 | 0 | - | 11 | 49,400,000.00 | 28 | - | 12 | 191,600,000.00 |
| 5 | Water Environment & Natural Resources | 28 | 0 | - | 0 | - | 9 | 36,162,629.00 | 19 | 33,881,369.00 |
| 6 | Lands, Housing & Urban Development | 20 | | | | | 9 | 71,724,372.00 | 11 | 77,327,584.00 |
| 7 | Office of the Governor | 2 | 0 | - | 0 | - | 2 | 44,756,298.00 | 0 | - |
| 8 | ICT & E-Government | 3 | - | - | - | | 3 | 129,142,000.00 | - | - |
| 9 | Public Service & Administration | 17 | 1 | 675,073.00 | 0 | - | 8 | 43,986,492.60 | 8 | 9,988,963.00 |
| 10 | Social Services, Youth & Sports | 2 | 0 | - | 0 | - | 0 | - | 2 | 192,169,665.00 |
| 11 | Trade, Industrialization & Tourism | 12 | - | - | - | - | 5 | 135,355,530.00 | 7 | 374,417,833.00 |
| | Total | 526 | 1 | 675,073.00 | 91 | 127,718,133.75 | 311 | 2,840,153,325.67 | 123 | 1,300,466,560.98 |
| | % Implementation Rate | | 0.2% | | 17.3% | | 59.1% | | 23.4% | |

Most of the projects were noted to be behind schedule as only 123 or approximately 23% of the 526 projects planned to be implemented had been completed.

Delay in project implementation is an indication of non-implementation of the budget which is contrary to Section 113(1) of the County Government Act, 2012 which requires that the county budget be based on the annual development priorities and objectives and performance targets set by the County. Consequently, the residents of Kakamega County may not have obtained value for money in respect of the projects that were to be implemented during the year ended 30 June 2018.

5. Stalled Project- Construction of Borehole at Likuyani

The tender for construction of a borehole project at Likuyani was awarded to a construction firm during the year 2016/2017 at a contract sum of Kshs.15,703,919. The project was to be completed in six months commencing May to November 2017. As at the time of audit in November 2018, a payment of Kshs.2,283,585 had been made to the firm in respect of certificate No.1. However, the project had stalled at capping level and the contractor was not on site.

Consequently, the residents of Kakamega County did not get value for Kshs.2,283,585 incurred on the project.

6. Construction of Borehole at Lugari

A concrete and steel engineering firm was awarded contract for construction of a borehole water project at Lugari at a contract sum of Kshs.7,921,427 during 2016/2017. During the year under review, the contractor was paid an amount of Kshs.3,114,914. According the bills of quantities (BQs), nineteen (19) solar panels were to be installed. However, a site inspection of the project in November 2018 revealed that only nine (9) solar panels were installed instead of nineteen (19)

provided for in the BQs leaving 10 solar panels uninstalled. Although it was explained that during the pump testing, it was established that only nine solar panels were required and that the value of the extra ten (10) panels was instead re-allocated and spent to extend the water pipeline, no justification was given for the changes.

Consequently, the residents of Kakamega County may not have got value for the Kshs.3,114,914 incurred on the project.

7. Expenditure on Wages and Benefits

The statement of receipts and payments for the year ended 30 June 2018 reflects compensation of employees balance of Kshs.4,571,436,148 which is approximately 39.3% of the total revenue of Kshs.11,640,760,648 and thus exceeded the recommended ratio of 35% stipulated in Section 25 (1) of the Public Finance Management (County Governments) Regulations 2015.

Consequently, the management was in breach of the law and the wage bill may not be sustainable unless adequate measures are put in place to contain the rising wage bill and increase collection of county own generated revenue.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and Those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for maintaining effective internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, management is responsible for assessing the Executive's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the basis of accounting unless the management either intends to liquidate the Executive or to cease operations, or have no realistic alternative but to do so.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the

activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7 (1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of noncompliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Executive's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence

obtained up to the date of my audit report. However, future events or conditions may cause the Executive to cease to continue to sustain its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Executive to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

18 February 2019