

REPORT OF THE AUDITOR-GENERAL ON COUNTY EXECUTIVE OF KISUMU FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of the County Executive of Kisumu set out on pages 7 to 38, which comprise the statement of financial assets and liabilities as at 30 June 2017, and the statement of receipts and payments, statement of cash flows and the statement of appropriations: recurrent and development combined 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, 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of County Executive of Kisumu as at 30 June 2017, 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 do not comply with the Public Finance Management Act, 2012.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, I confirm that public money has not been applied lawfully and in an effective way.

Basis for Adverse Opinion

1. Cash and Cash Equivalents

1.1 Bank Balances

The statement of financial assets and liabilities as at 30 June 2017 reflects a balance of Kshs.1,359,986,921 in respect of bank balances. However, from the audit review of the records supporting the balances the following anomalies were noted;

- i) Cash books for balances totaling Kshs.1,359,986,921 were not availed for audit review.
- ii) Bank reconciliation statements for nineteen (19) bank accounts with balances totaling Kshs.1,359,280,204 were not availed for audit review.
- iii) Bank statements for six (6) bank accounts with balances totaling Kshs.19,887,952 were not availed for audit review.

- iv) A report by the National Treasury reference AG/FS/5060 Vol. 1 (6) dated 13 November 2017 indicated that the County Executive of Kisumu operated 112 bank accounts in different banks which were not disclosed in the financial statements. These were:- Central Bank of Kenya two (2) accounts; Kenya Commercial Bank ninety three (93) accounts; Co-operative Bank ten (10) accounts; Equity Bank Limited three (3) accounts; Family Bank three (3) accounts; and Diamond Trust Bank one (1) account.
- v) The County Executive did not carry out automatic bank reconciliations in the IFMIS for all the bank accounts, instead, bank reconciliations were prepared outside the IFMIS.
- vi) During the year under review, it was observed that the Kenya Commercial Bank Imprest/Operations Account No. 1142145549 was overdrawn thus resulting in unnecessary debit interest charges amounting to Kshs.4,350.

Consequently, the accuracy and completeness of the bank balances of Kshs.1,359,986,921 as at 30 June 2017 could not be confirmed as fairly stated.

2. Accounts Receivable – Outstanding Imprests

The statement of assets and liabilities reflects a balance of Kshs.66,835,022 in respect of outstanding imprests. However, from the examination of the records supporting the imprests issued during the year, the following anomalies were noted;

- i) Eleven (11) officers were holding imprests which were over Kshs.1,000,000 each all totaling to Kshs.19,530,117 as at the end of the period.
- ii) The examination of the imprest register revealed that several officers were issued with multiple imprests without having surrendered the previous ones all totaling Kshs.3,159,880.
- iii) There is no evidence that the reported balance of Kshs.66,835,022 being outstanding imprests have been surrendered and appropriately accounted for.

The County was therefore in breach of Section 93 (4) and (5) of the Public Finance Management Act (County Regulations), 2015.

3. Accounts Payable – Deposits and Retentions

The statement of financial assets and liabilities reflects a balance of Kshs.92,916,431 relating to deposits and retentions. No documentary evidence has

been provided to support the balance. Further, the Public Sector Accounting Standard Board's reporting templates require liabilities to be disclosed under notes to the financial statements.

Consequently, the outstanding deposits and retentions balance of Kshs.92,916,431 as at 30 June 2017 could not be confirmed as fairly stated.

4. Receipts

4.1. Revenue Collections

A review of the budgeted against actual collections of local revenues indicates that the County Executive was unable to collect an amount of Kshs.1,267,754,043 in the twenty three (23) revenue streams as had been projected . No explanations have been provided for the material variances by way of footnotes to the financial statements between the approved budgeted and actual collection contrary to the requirements of Sections 130 of the Public Finance Management (County Governments) Regulations, 2015 and the International Public Sector Accounting Standards (IPSAS) Cash Basis of Accounting Reporting Framework. Further, the county has not developed an updated valuation roll to establish its properties in the county.

4.2. Transfers from other Government Entities

The statement of receipts and payments reflects a figure of Kshs.704,333,216 under transfers from other government entities, which includes grants to Level 5 Hospital of Kshs.351,445,087. However, the records maintained at the hospital revealed that the Executive had only disbursed a sum of Kshs.205,595,356 leaving an unexplained variance of Kshs.145,849,731. In addition, the level 5 hospital's pro-rata distribution of free maternity funds indicates that it should have received a total of Kshs.116,550,000 from the scheme between 1July 2013 to 30 June 2017. However, only a total of Kshs.90,140,000 had been reimbursed to the hospital as at 30 June 2017 leaving an unexplained variance of Kshs.26,410,000.

Consequently, the accuracy and completeness of the transfers from other government entities of Kshs.704,333,216 could not be confirmed.

5. Compensation of Employees

The statement of receipts and payments reflects a figure of Kshs.3,290,083,000 in respect of compensation of employees. However, an audit review of the supporting documentation revealed the following anomalies;

- i) The IPPD payroll system and manual payrolls showed a total balance of Kshs.3,133,266,670 as opposed to the financial statements figure of Kshs.3,290,083,000 thus an unexplained variance of Kshs.156,816,330.

- ii) A comparison of the current year balance with the previous year audited balance reported a decrease in basic salaries of permanent employees by Kshs.705,612,388, an increase in basic wages of temporary employees by Kshs.456,342 and an increase in personal allowance paid as part of salary by Kshs.845,346,160. These variances were noted despite 167 new permanent employees joining the workforce in the year. There was no explanation given for these variances.
- iii) The wage bill constitutes 42% of the total receipts during the year. This is contrary to Public Finance Management Regulation 2015, section 107(2) that recommends a maximum of 35%.
- iv) The payroll statistics revealed that ninety seven per cent (97%) of the employees were from the dominant ethnical community of Kisumu County. This is contrary to National Cohesion and Integration Commission Act, 2008 section 7 (1) which requires that all public establishments seek to represent the diversity of the people of Kenya in the employment of staff and that no public establishment shall have more than one third of its staff from the same ethnic community.
- v) Documents to support the identification of vacancies, advertisement of the positions, shortlisting and interview minutes for the recruitments in the year by the County Public Service Board were not availed for audit review.
- vi) Support documents for payments totaling Kshs.150,390,879 as included in the total figure for compensation of employees were not provided for audit review.

Consequently, the propriety and validity of the expenditure totaling Kshs.3,290,083,000 could not be confirmed.

6. Use of Goods and Services

The statement of receipts and payments reflects a figure of Kshs.674,144,262 in respect of use of goods and services. However, analyses and audit review of the expenditure revealed that an amount of Kshs.263,726,445 could not be accounted for as it was not supported by any documentary evidence as detailed here below;

- (i) An amount of Kshs.56,857,063 relating to utilities, supplies and services include payments totaling Kshs.16,494,345 were not supported with relevant any documentary evidence.
- (ii) Kshs.6,094,920 relating to communication, supplies and services include payments totaling to Kshs.4,006,245 not supported.

- (iii) An amount Kshs.73,994,193 relating to domestic travel and subsistence include payments totaling Kshs.18,921,055 which were not supported with relevant documentary evidence.
- (iv) An amount of Kshs.7,999,121 relating to foreign travel and subsistence include payments totaling Kshs.2,472,461 which were not supported with relevant documentary evidence such as air tickets, passports, invitation letters and boarding passes.
- (v) An amount of Kshs.43,096,157 relating to printing, advertising and information supplies and services include payments totaling Kshs.18,463,705 which were not supported with relevant documentary evidence.
- (vi) Kshs.5,913,418 relating to rentals of produced assets include payments totaling Kshs.814,202 unsupported with relevant documentary evidence, while a payment of Kshs.1,986,001 was not budgeted for.
- (vii) An amount of Kshs.34,106,126 relating to training expenses include payments totaling Kshs.8,822,950 which were not supported with relevant documentary evidence.
- (viii) Kshs.34,050,784 relating to hospitality supplies and services include payments totaling Kshs.8,781,695 which were not supported with relevant documentary evidence.
- (ix) An amount of Kshs.37,742,319 relating to insurance costs include payments totaling to Kshs.17,179,573 which were not supported with relevant documentary evidence such policy documents and receipts.
- (x) An amount of Kshs.135,287,014 relating to specialized materials and services include payments totaling Kshs.8,983,909 were not supported
- (xi) Kshs.35,054,191 relating to office and general supplies and services include payments totaling Kshs.13,751,938 were not supported with relevant documentary evidence.
- (xii) An amount of Kshs.49,800,611 relating to fuel, oil and lubricants include payments totaling Kshs.45,675,722 were not supported.
- (xiii) An amount of Kshs.101,522,949 relating to other operating expenses include payments totaling Kshs.95,512,030 were not supported with payment vouchers. Further, the following matters were noted;
 - The executive paid Kshs.14,592,453 to the council of governors in the year under review contrary to Section 37 of the Inter-governmental Relations Act, 2012 which requires that the operational expenses of

the council of governors should be provided for in the annual estimates of the revenue and expenditure of the national government.

- The supply of various sports kits and tools for inter county games held in Kiambu county from 14 to 21 August 2016 was awarded and paid for to a supplier at Kshs.1,744,292. There was no record of beneficiaries of the kits and tools.
 - The executive paid Kshs.2,685,476 for the provision of consultancy services for development of a procurement policy on 17 October 2016.
- (xiv) An amount of Kshs.21,801,137 relating to routine maintenance of vehicles and other transport equipment include payments totaling Kshs.3,168,800 that were made to purchase motor vehicle spare parts which were not consequently taken on charge in the stores ledger card/bin cards and other stores records. It was therefore not possible to confirm that these items were actually received.

Consequently, the propriety of the Kshs.3,168,800 for routine maintenance of vehicles and other transport equipment could not be confirmed.

7. Transfers to Other Government Units

7.1. Unsupported Payments

The statement of receipts and payments indicates that the transfers to other government units amounted to Kshs.1,856,934,676 during the year ended 30 June 2017. However, payments totaling Kshs.1,002,848,950 were not supported. The following anomalies were also noted;

- i) Transfers amounting to Ksh.312,884,011 was supported with a Kenya Revenue Authority demand letter dated 5 January 2017 Ref. KSM/DTD/PU(T) P0514196U/2. However, the payment voucher for the transaction was not availed for audit. Also, the expenditure was not recorded in the cash book or in the expenditure ledger and bank statements.
- ii) A transfer to the Jaramogi Oginga Odinga Teaching and Referral Hospital (JOOTRH) of Kshs.15,669,720 was made on 28 July 2016. However, the management at JOOTRH indicated that the transfer was meant to be a refund of amounts previously advanced to County treasury and not a payment.
- iii) An amount of Kshs.4,946,700 included the transfers to other government units is indicated as disbursed to Kisumu East County Hospital. However,

the bank statements and cashbooks at the hospital did not show such receipts from the executive.

- iv) The transfers relate to disbursement to the city of Kisumu and various health facilities in the county. However, the transfers were expensed at the point of issue as opposed to recording of corresponding expenditures indicating how the funds were utilized. Also, the presentation of transfers as an expenditure item in the statement of receipts and payments is misleading as there is no corresponding budget on transfers to other government units as per voted standard chart of accounts in the approved budget estimates.

Consequently, the propriety and validity of the Kshs.1,856,934,676 relating to transfers to other government units could not be confirmed.

8. Other Grants and Transfers

The statement of receipts and payments indicates that the other grants and transfers amounted to Kshs.243,891,506 during the year ended 30 June 2017. However, payments totaling Kshs.58,164,116 out of the Kshs.2343,891,506 were not supported. In addition, the county transferred Kshs.130,000,000 from its recurrent account to the Education Fund account at the Kenya Commercial Bank A/C no.1151900184. However, the executive minutes constituting the Fund and gazetted Fund regulations were not availed for audit review. Also, the financial statements for the Fund were neither prepared nor availed for audit contrary to section 116(7) of the Public Finance Management Act, 2012.

Consequently, the propriety and validity of the Kshs.188,164,116 relating to other grants transfers could not be confirmed.

9. Social Security Benefits

The statement of receipts and payments indicates that the social security benefits amounted to Kshs.21,793,048 during the year ended 30 June 2017. However, payments totaling Kshs.13,953,035 were not supported.

Consequently, the propriety and validity of the Kshs.13,953,035 relating to social security benefits could not be confirmed.

10. Acquisition of Assets

10.1. Construction of Buildings

The statement of receipts and payments indicates that the acquisition of assets amounted to Kshs.1,559,967,496 during the year ended 30 June 2017 out of which Kshs.110,628,680 relates to construction of buildings. However, construction of buildings payments totaling Kshs.13,953,035 were not supported with relevant documentary evidence.

Consequently, the propriety and validity of the Kshs.13,953,035 relating to construction of buildings could not be confirmed.

Construction and Civil Works

The statement of receipts and payments indicates that the acquisition of assets amounted to Kshs.1,559,967,496 during the year ended 30 June 2017 out of which Kshs.1,031,359,022 relates to construction and civil works. However, construction and civil works payments totaling Kshs.469,024,307 were not supported with relevant documentary evidence. In addition, a review of the availed records and physical verification of civil works projects, the following observations were made;

- (i) The construction of Rachilo-Oruga steel ring culvert was awarded to a contractor on 15 June 2017 at a total sum of Kshs.2,999,914. Physical inspection of the works in January 2018 revealed that the steel culvert had not been put in place as required in the bill of quantities but instead the contractor protected the existing concrete culverts. The contractor had been paid in full for the works by the time of the audit.
- (ii) The construction of Chief Odero steel ring culvert was awarded to a contractor on 15 June 2017 at a contract sum of Kshs.2,999,869. Physical inspection of the works in January 2018 revealed that the steel culvert had not been erected despite full payments having been done.
- (iii) The renovation of Mamboleo slaughter house was awarded to a contractor at contract sum of Kshs.3,000,000 during the year. The contract sum included the cost of a 14.5m³ steel tank costing Kshs.840,200. Physical inspection of the works in January 2018 revealed that the tank had not been supplied yet the contractor had been paid in full including the retention monies.
- (iv) The construction of a perimeter wall at Mamboleo slaughter house was awarded to a contractor at a contract sum of Kshs.12,498,269 during the year under review. The contractor was paid Kshs.3,985,296 during the period. Physical inspection of the project in January 2018 revealed that only a quarter of the fence had been constructed yet the contractor was not on site and there was no evidence that this project will proceed.

- (v) The supply and installation of solar streets lights at various markets was awarded to a contractor at a contract sum of Kshs.2,998,600 on 7 March 2017. Physical verification of the works at Holo and Mamboleo market centres in January 2018 revealed that the lights had not been installed despite full payments having been done for the same.
- (vi) The construction of Kere water pan was awarded to a construction firm at a contract sum of Kshs.2,891,320 on 22 March 2016. Physical verification in January 2018 revealed that the cattle trough worth Kshs.216,820 had not been constructed as per the bills of quantities yet this had been included in the Kshs.2,394,600 part payment out of the Kshs.2,891,320 total sum made on 27 October 2016.
- (vii) The construction of Odoa water pan was awarded to a construction firm at a contract sum of Kshs.5,700,000 on 14 January 2016. Physical verification in January 2018 indicated that a 100mm GI flagged draw off pipe had not been installed. In addition a water communal drawing point, a cattle trough and fencing of the pan were not constructed. According to the bills of quantities all these works were to cost Kshs.510,000. The contractor was paid the full contract sum on 17 July 2017.
- (viii) The construction of Nanga Borehole was awarded to a contractor on 29 June 2015 at a contract sum of Kshs.2,999,342. Physical verification of the works in January 2018 revealed that the pump which had been installed had malfunctioned and the community was not benefiting from the project. The contractor was paid Kshs.1,843,042 on 8 February 2017.
- (ix) The construction of Korowe modern market was awarded to a construction firm on 22 February 2016 at a contract sum of Kshs.34,567,338. However, a review of payments made to the contractor revealed that a total of Kshs.35,280,479 had been on various dates. This exceeded the contract sum by Kshs.713,141. Further, physical verification in January 2018 revealed that an ablution block costing Kshs.2,571,730 per the bill of quantities had not been constructed yet this had been factored in the payments made. The perimeter wall had also developed huge cracks and painting works had not been done.
- (x) The construction of two (2) market shades at Sondu Market was awarded to a contractor for a contract sum of Kshs.3,054,665 during the year under review. Physical verification in January 2018 revealed that only one (1) shade was constructed yet the contractor had been paid for the two shades.
- (xi) The construction of Nyangande community hall was awarded to a contractor on 25 June 2015 at a contract sum of Kshs.2,490,578. The contractor was paid the full contract sum on 1 August 2016. Physical inspection in January

- 2018 revealed that the project had stalled at the third course and cracks on the walls were visible.
- (xii) The construction of Kanyakwar perimeter wall fence was awarded to a contractor for a sum of Kshs.3,999,768. However, the wall was not erected despite works certified as complete and full payment promptly paid during the year under review.
 - (xiii) The construction of Nyahera Resource Centre was awarded to a contractor for a sum of Kshs.4,999,252. The contractor was partly paid Kshs.2,178,712 for work done on 22 February 2017. Another contractor was awarded a contract to construct Nyahera community hall at a sum of Kshs.1,999,840 and was paid on 27 October 2016. However, from our inspection of the works and information from the community hall administration, there is no distinction between the works done by the two contractors since they both were working on the same one-storey building. A sign post or site office were not in place despite payments being made for the same. The ground floor which is a hall is complete while the upper floor superstructure is at lintel level. The paid works were valued and certified complete but it is unclear how two independent contractors can occupy the same site. Further, the registered owner of the land on which the building was erected is not disclosed to confirm ownership.
 - (xiv) The executive advertised a tender for renovation of classrooms at Okiro primary school which attracted three (3) bids. The tender was awarded to the second lowest bidder contrary to the recommendation of the evaluation committee that the works should be awarded to the lowest bidder. No explanation was given for this occurrence. The contractor has been fully paid but physical verification of the works revealed that wrong specifications were used in roofing. Ordinary roofing sheets gauge 32 were used instead of pre-painted versatile profiled roof sheets gauge 30. Further, only parts of the roof was replaced instead of entire roofs as per the requirements.

Consequently, the propriety of the Kshs.469,024,307 for construction and civil works could not be confirmed.

10.2. Overhaul of Civil Works

The statement of receipts and payments indicates that the acquisition of assets amounted to Kshs.1,559,967,496 during the year ended 30 June 2017 of which Kshs.2,732,861 relates to overhaul of civil works. However, payments totaling Kshs.2,662,718 were not supported.

Consequently, the propriety of the Kshs.2,662,718 for overhaul of civil works could not be confirmed.

10.3. Purchase of Vehicles and Other Transport Equipment

The statement of receipts and payments indicates that the acquisition of assets amounted to Kshs.1,559,967,496 during the year ended 30 June 2017 out of which Kshs.94,232,914 relates to purchase of vehicles and other transport equipment. However, payments totaling Kshs.64,835,5162 out of a total of Kshs.94,232,914 were not supported.

Consequently, the propriety of the Kshs.64,835,5162 for purchase of vehicles and other transport equipment could not be confirmed.

10.4. Overhaul of Vehicles

The statement of receipts and payments indicates that the acquisition of assets amounted to Kshs.1,559,967,496 during the year ended 30 June 2017 out of which Kshs.27,093,560 relates to overhaul of vehicles. However, payments totaling Kshs.20,583,630 were not supported.

Consequently, the propriety of Kshs.20,583,630 for overhaul of vehicles and other transport equipment could not be confirmed.

10.5. Purchase of Office Furniture and General Equipment

The statement of receipts and payments indicates that the acquisition of assets amounted to Kshs.1,559,967,496 during the year ended 30 June 2017 out of which Kshs.30,092,859 relates to purchase of office furniture and general equipment. However, payments totaling Kshs.10,006,560 were not supported.

Consequently, the propriety of the Kshs.10,006,560 for purchase of office furniture and general equipment could not be confirmed.

10.6. Purchase of ICT Equipment

The statement of receipts and payments indicates that the acquisition of assets amounted to Kshs.1,559,967,496 during the year ended 30 June 2017 out of which Kshs.75,936,454 relates to purchase of ICT equipment. However, payments totaling Kshs.17,217,065 were not supported. The following issues were also noted from the payments made;

- i) A contract for the installation of an Enterprise Resource Planning (ERP) system was awarded to a firm on 4 April 2017 at a total contract sum of Kshs.165,346,516. The works carried out included; the requirements analysis, design, customization, testing, training, deployment and maintenance of an integrated enterprise resource planner system. The supplier was paid Kshs.33,069,303 during the year for system analysis and process re-alignment which also entailed supply of Microsoft dynamic NAV 2017-50

- virtual user licenses. However, from a review of the tender process documentation the following were noted;
- The tender closed on 10 February 2017.
 - Notifications for regrets were made on 13 February 2017;
 - The professional opinion by head of procurement function was provided on 3 February 2017 on the entire procurement process even before the procurement process had started. This included the choice of the supplier which was un-procedural.
 - The lowest tender had a price of Kshs.66,000,000.
 - The firm that was awarded the contract was selected on the basis that they had the highest score combining technical and financial evaluation. This was contrary to procurement laws which states that the highest combined score is used only where request for proposal method is used.
 - Notification of award was made on 20 March 2017 indicating that payments were to be staggered in two financial years at Kshs.70,000,000 in 2016/2017 and Kshs.95,346,516 in 2017/18.
 - At the time of audit, the ERP system had not been installed and we could not establish whether the county has obtained value for the funds used to date.
- ii) The supply, delivery, installation, configuration and commissioning of bulk licenses and Microsoft products for 300 computer devices was awarded to a supplier at a sum of Kshs.13,920,000 on 29 January 2016. The supplier was paid Kshs.7,920,000 during the year under review. However, physical verification revealed that Microsoft Inc. had withdrawn the licenses due to non-payment thus stalling active directory, operation of Microsoft office 365 for 300 devices, SharePoint for document management & collaboration service, skype for business and antivirus solution Webroot. This is a loss of value for funds already used.

Consequently, the propriety of the Kshs.17,217,065 for purchase of ICT equipment could not be confirmed.

10.7. Purchase of Specialized Plant, Equipment and Machinery

The statement of receipts and payments indicates that the acquisition of assets amounted to Kshs.1,559,967,496 during the year ended 30 June 2017 out of which Kshs.81,353,162 relates to purchase of specialized plant, equipment and machinery. However, payments totaling Kshs.11,961,489 were not supported. Further, the supply of a drilling rig contract was awarded to a supplier at a sum of Kshs.59,122,815. The drilling rig was delivered on 24 May 2017 but the executive

does not have a log book for it. Also, the three (3) component drilling rig; drilling rig & tools, test pumping unit and truck are lying idle in the yard due to lack of skilled personnel to operate it. The number plates have not been fitted and the asset is not recorded in fixed asset register.

Consequently, the propriety of the Kshs.11,961,489 for purchase of specialized plant, equipment and machinery could not be confirmed.

10.8. Research Studies and Design

The statement of receipts and payments indicates that the acquisition of assets amounted to Kshs.1,559,967,496 during the year ended 30 June 2017 out of which Kshs.95,326,615 relates to research, studies and design. However, payments totaling Kshs.15,186,753 were not supported. In addition, the review of the payments made revealed the following matters;

- i) The contract to provide youth entrepreneurship skills training was awarded to a firm for a sum of Kshs.4,868,448 on 23 June 2016. Four suppliers had bid for the contract. Three of them were declared unresponsive since they did not provide mandatory requirements. The tender should have been cancelled and repeated since three out of the four bidders were unresponsive.
- ii) Payments totaling Kshs.7,036,964 for supply of fishnets, fabrication of refuse skips and supply of fertilizer were included in this vote item even though they are not related to research studies and design.
- iii) A payment of Kshs.3,497,335 for supply of pesticides was made on 4 July 2017 but is included in the current year's payments.
- iv) A contract for preparation of a GIS based valuation roll for the county at a contract sum of Kshs.99,040,800. The contract was signed on 24 March 2017. As at the year-end Kshs.53,896,551 had been paid to the consultant. There is no evidence that the project had been budgeted for. The progress report as well as its review and acceptance have not been provided.

Consequently, the propriety of the Kshs.15,186,753 for research studies and design could not be confirmed.

10.9. Purchase of Certified Seeds and Animal Breeding Stock

The statement of receipts and payments indicates that the acquisition of assets amounted to Kshs.1,559,967,496 during the year ended 30 June 2017 out of which Kshs.7,666,800 relates to purchase of certified seeds and animal stock. However, payments totaling Kshs.3,402,000 were not supported. In addition, the executive

contracted a supplier to deliver tree seedlings at a sum of Kshs.1,019,396 on 9 December 2016. However, a review of the procurement documents indicate that the quotations were opened on 19 December 2016 yet notice of award is dated 9 December 2016. Evaluation of the bids is indicated to have been done on 14 December 2016.

Consequently, the propriety of the Kshs.3,402,000 for purchase of certified seeds and animal breeding stock could not be confirmed.

11. Other Payments

The statement of receipts and payments indicates that other payments amounted to Kshs.119,772,979 during the year ended 30 June 2017. A review of payments made revealed the following anomalies;

- i) A supplier was contracted to supply non-pharmaceutical products on 25 October 2016 at a sum of Kshs.1,469,827. The local purchase order was issued on 20 October 2016 even before the notice of award dated 25 October 2016 was issued.
- ii) An advocate was hired to provide legal representation on various cases against the executive. An amount of Kshs.1,796,551 was paid out during the year based on the invoices provided. However, no procurement documents were provided to show how the advocate was hired and the terms and rates of payment.
- iii) A media firm was contracted to provide media coverage and related activities during the year. A sum of Kshs.1,925,474 was paid to the firm during the year. However, from the review of procurement documents, it was noted that a notice of award was not issued before the local service order was issued.

Consequently, the propriety of the Kshs.5,191,852 for other payments could not be confirmed.

12. Inaccuracies in the Financial Statements

12.1. The approved budget estimate for other grants and transfers is Kshs.315,909,179. However, the Summary statements of appropriations recurrent and development combined (note VII) and the individual summaries statements of recurrent and developments respectively (notes VIII and IX) indicated zero estimates. The accuracy of the statement is therefore not confirmed.

12.2. Included in the payments disclosed as construction and civil works of Kshs.1,031,359,022 are payments amounting to Kshs.67,566,365 for

construction of access roads and roads that require to be disclosed separately as construction of roads as per the approved estimates.

- 12.3. The total amounts in annexure 4 on analysis of assets page 38 of the financial statement is not accurate. The schedule does not also indicate the currency.

The accuracy of the financial statements could not be confirmed.

13. Governance Frame Work

The following anomalies were observed;

- 13.1. The County Government of Kisumu has not established an audit committee contrary to Section 155 of the Public Finance Management Act, 2012 and Section 167(1) of the Public Finance Management (County Government) Regulations, 2015 which require each County Government entity to establish an audit committee to oversee governance and promote transparency in the management of the County's resources. Further, the internal audit unit is under staffed with only five (5) officers and thus cannot adequately carry out their oversight roles.
- 13.2. Currently, the internal audit department has only five officers thus lacking the capacity to audit the entire operations of the executive. As a result, there did not exist any report of purchase of goods, services and works, and acquisition of assets. Procurement of goods, services and works takes a large percentage of county expenditure but the internal controls of Kisumu County Government have not been internally evaluated and controlled by the internal audit unit. Also, the Internal Audit Unit of the County Government operated without an approved annual audit activity plan.
- 13.3. During the year under review, the Internal audit unit of the County carried out eight (8) audit exercises and prepared internal audit reports which indicated serious issues of misappropriation of public funds and losses that required urgent management action for prevention measures to be put in place. However, lack of an audit committee significantly disabled the work of the unit and no action was taken on internal audit reports.

The management is therefore in breach of the law.

14. Pending Bills

The pending bills balance is indicated as Kshs.2,537,245,107 as at the end of the year. A detailed listing of the pending bills has not been included as an annexure to the financial statements in conformity with the requirements of the templates provided by the Public Sector Accounting Standards Board (PSASB).

A review of the pending bills schedule and files provided for audit revealed the following issues:

- i) The pending bills included people with disabilities fund (PWD) amount of Kshs.225,000,000. We could not establish whether there was a contractual obligation to pay this amount or this was a provision.
- ii) The total pending bills figure of Kshs.2,537,245,107 included a provision for County Development Fund of Kshs.28,800,000. This is not a pending bill since there is no contractual agreement to set aside the funds.
- iii) Files for outstanding bills amounting to Kshs.689,359,984 as sampled were not availed for audit review. We therefore could not ascertain whether these were genuine bills.
- iv) The total bills pending are stated as Kshs.2,537,245,106. However, management has not provided an explanation of how these bills will be settled given that the bank balance at year end totaled Kshs.1,359,986,921 far below the pending bills figure.
- v) In the months of April and May 2017, a media consultancy firm was contracted to publish the county newspaper (Luo and English versions) at a cost of Kshs.5,916,000. Management did not explain what value the newspaper would have to the community and since there were other higher priority projects that were not carried out. Out of the Kshs.5,916,000 contract sum, Kshs.2,850,000 is included in the pending bills figure. The value for money used in the publications could not be established.

Consequently, the propriety and accuracy of the pending bills figure of Kshs.2,537,245,106 as at 30 June 2017 could not be confirmed.

15. Fixed Assets Summary

A review of the schedule of assets provided for audit revealed the following issues:

- i) The total cost of the assets since the year 2013/2014 to 2016/2017 amounts to Kshs.2,807,535,126. This may not be conclusive since the county has invested Kshs.4,472,628,536 since year 2013/2014 as the cumulative acquisition of assets.
- ii) The schedule does not include heavy equipment and machinery including the drilling rig.
- iii) The schedule does not include assets taken over from the defunct local.

The county does not also have a comprehensive asset register as required by section 136 of the Public Finance Management Act (County Regulations) 2015.

Consequently, the accuracy and validity of the fixed assets summary could not be confirmed.

16. Budget Analysis

16.1 Budget Absorption

16.1.1. Recurrent Expenditure

The total approved recurrent expenditure for the County of Kshs.5,925,351,185 for 2016/17 was allocated to twelve (13) departments and by 30th June 2017. Kshs.5,898,306,895 had been spent of the funds allocated as follows:

Department	Budget	Actual Expenditure	Absorption Rate (%)
	Kshs.	Kshs.	
Office of the Governor and County Administration	417,851,093	416,121,500	100
Finance and Economic Planning	965,618,590	964,873,089	100
Agriculture, Livestock and Fisheries	317,503,424	313,972,333	99
Education, Youth, Culture and Social services	378,446,655	375,427,043	99
Tourism, Trade and Heritage	73,756,662	72,760,110	99
Lands, Housing and Physical Planning	30,044,022	28,781,699	96
Roads, Transport and Public Work	268,703,173	265,053,273	99
Health Services	2,388,398,993	2,386,618,856	100
Water, Environment and Natural Resources	152,378,213	150,277,095	99
Industrialization, Enterprise Development, Energy and Mining	110,930,944	108,735,871	98
Communication, Information and Technology	65,115,352	64,530,150	99
City of Kisumu	709,455,157	705,199,413	99
County Public Service Board	47,148,907	45,956,463	97
TOTAL	5,925,351,185	5,898,306,895	100

16.1.2. Development Expenditure

The total approved development expenditure for the County of Kshs.3,164,597,404 for 2016/17 was allocated to twelve (12) departments and by 30th June 2017, only Kshs.1,868,280,073 had been spent of the funds allocated as follows.

Department	Budget Kshs.	Actual Expenditure Kshs.	% Level of Implementation
Office of the Governor and County Administration	127,500,000	124,129,264	97
Finance and Economic Planning	1,499,989,852	652,192,329	43
Agriculture, Livestock and Fisheries	138,540,986	86,911,977	63
Education, Youth, Culture and Social services	47,795,773	51,296,298	107
Tourism, Trade and Heritage	79,107,167	64,042,002	81
Lands, Housing and Physical Planning	156,395,240	65,640,527	42
Roads, Transport and Public Work	628,634,862	427,720,994	68
Health Services	96,450,633	30,555,316	32
Water, Environment and Natural Resources	118,034,019	116,002,835	98
Industrialization, Enterprise Development, Energy and Mining	135,982,248	117,941,570	87
Communication, Information and Technology	119,816,624	124,316,694	104
City of Kisumu	16,350,000	7,530,267	46
TOTAL	3,164,597,404	1,868,280,073	59

Roads project implementation status indicated that roads amounting to Kshs.170,218,286 had not started even though included in the budget. There is no evidence that the funds allocated for these projects were re-voted at the closure of financial year to ensure implementation in the following fiscal year as required by law.

The delay in implementation of planned development projects is likely to affect subsequent projects and also impact negatively the service delivery to the citizens of Kisumu County.

16.2. Analysis of Revenue Collection

During the year under review the Executive had projected to collect Kshs.2,271,797,949 in local revenue. However only Kshs.1,004,043,906 was collected leading to an underperformance of 55% as shown below.

ITEM	Actuals	Current year budget	Variance
	Kshs.	Kshs.	Kshs.
Tax Receipts			
Land Rates	144,518,414	717,229,233	572,710,819
Other Receipts			
Rents	44,127,419	40,000,000	- 4,127,419
Market Fees	74,838,150	113,000,000	38,161,850
Park fees	206,888,650	228,087,546	21,198,896
sign board and advertisement	60,772,871	100,000,000	39,227,129
Boda Boda Self-Regulating fees	-	25,000,000	25,000,000
Trade License Fees	96,901,530	115,000,000	18,098,470
Liquor Licensing Fees	10,912,848	30,570,293	19,657,445
Sundry Revenue	17,799,511	111,597,354	93,797,843
Public Health Inspection fees	9,501,800	14,000,000	4,498,200
Building Plan Approval	42,727,457	52,000,000	9,272,543
Health	236,963,858	315,280,143	78,316,285
Lands, Housing and Physical Planning	3,358,413	20,000,000	16,641,587
Agriculture, Fisheries & Livestock Levies	16,215,232	20,000,000	3,784,768
Industrialization/Cooperative Levies	113,650	1,500,000	1,386,350
Education/Sports & Social Services	7,210,958	5,000,000	- 2,210,958
Roads, Transport and Public Works	-	60,000,000	60,000,000
Commerce, Trade & Tourism	1,600,760	2,400,000	799,240
Environment	1,479,450	1,200,000	- 279,450
Water	5,586,980	36,000,000	30,413,020
Green Energy	-	5,000,000	5,000,000

Others - bulk revenue	22,460,955	-	- 22,460,955
Energy & Mining	65,000	2,500,000	2,435,000
Adjustments	-	256,433,380	256,433,380
Total - other receipts	859,525,492	1,554,568,716	695,043,224
Total - Local Receipts	1,004,043,906	2,271,797,949	1,267,754,043

There was a shortfall of Kshs.1,267,754,043 as indicated above. There was an amount of Kshs.256,433,380 indicated as adjustments in the budget a breakdown of which has not been provided.

Failure to collect revenues distorts the implementation of budgeted activities thereby denying the citizens of Kisumu the much desired service delivery.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, were of most significance in the audit of the financial statements of the year under review. Except for the matters discussed in the Basis for Adverse Opinion section of my report, I have determined that there are no Key Audit Matters to communicate in my report.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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 such 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.

In preparing the financial statements, management is responsible for assessing the County Executive's ability to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the County Government either intends to liquidate 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.

Those charged with governance are responsible for overseeing the Government's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

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 of Kenya. 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 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.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to give an assurance on the effectiveness of the County Executive's 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 offering 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 consolidated/ 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 offering 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 or 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

16 July 2018