

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

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of County Executive of Kisumu set out on pages 1 to 44 which comprise the statement of financial 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, 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 as at June 30 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards/International Public Sector Accounting Standards (Cash Basis) and do not comply with the Public Finance Management Act, 2012 and any other Laws of Kenya.

Basis for Adverse Opinion

1. Cash and Cash Equivalent

1.1 Bank Accounts Omitted from Financial Statements

The statement of assets and liabilities reflect a cash and cash equivalents balance of Kshs.1, 541,841,130. However, as previously reported the County Executive of Kisumu operated 112 bank accounts and the following anomalies were observed:

- i. The bank accounts with omitted balances at close of the year numbering 69 out of a total of 112 were never disclosed in the notes to the financial statements.
- ii. The bank reconciliations for the 43 bank accounts at note 21A to the financial statements were never prepared.

In view of the circumstances, the validity and accuracy of the bank balances of Kshs.1,541,841,130 could not be confirmed.

2. Assets and Liabilities

2.1. Inherited from Defunct Local Authorities

The statement of receipts and payments reflects an amount of Kshs.941,433,932 under the acquisition of assets for the year ended 30 June 2018. It also reflects assets of nil balance at annexures 5. However, the County Government financial statements did not include the assets and liabilities inherited from the defunct local authorities even though the county Government management took possession of them. In addition, the Inter Government Relations Technical Committee which took over from Transitional Authority was yet to formally hand over the assets and liabilities of the defunct local authorities to the County Government. It was not clear when the assets and liabilities would be handed over to the County Government. Consequently, the financial statements presented by the County Government of Kisumu were not fairly stated.

2.2. Acquisition of Assets

The statement of receipts and payments acquisition of assets amount of Kshs.941,433,931 includes construction and civil works amount of Kshs.720,075,308 which in turn includes Kshs.200,307,000 for road maintenance levy fund. However, the work plan on the roads sponsored by the Fund was not availed for audit review. It was not possible to confirm whether the usage of receipts for roads levy comply with road levy arrangements. Consequently, the management was in breach of the regulations and the regularity of the acquisition of assets figure of Kshs.200,307,000 could not be confirmed.

3. Pending Bills

3.1 Unsupported Pending Bills Balance

The County Government had accumulated pending bills totalling to Kshs.1,953,793,412 as at 30 June 2018 as disclosed in the financial statements under note 2.10 other important disclosures. However, examination of a sample population of 20 PVs, an amount totalling Kshs.444,525,687 revealed that pending bills amounting to Kshs.271,169,741 could not be confirmed as the documentary evidence such as invoices, LPO, delivery notes were not availed for audit verification. Further, the detailed analysis of the pending bills was not disclosed in the financial statements as required. Consequently, the authenticity of the pending bills reported as Kshs.1,953,793,412 could not be confirmed.

4. Journal Entries

The financial statements for the year ended on 30 June 2018 submitted for audit on 27 September 2018 and an amended copy on 21 November 2018 reflects changes in financial statements' item figures as shown below. However, no journal entries nor documentary evidence were provided to support the changes or difference in the figures of the two financial statements submitted.

Item	Submission 27 September 2018 Kshs.	Submission 21 November 2018 Kshs.	Difference Kshs.
STATEMENT OF RECEIPTS AND PAYMENTS			
RECEIPTS			
Exchequer Releases	6,553,400,000	5,505,390,000	1,048,010,000
Proceeds from Domestic & Foreign grants	121,310,568	132,237,714	(10,927,146)
Transfer from other Government Entities	589,876,343	569,324,342	20,552,001
County Own Generated Receipts	874,901,777	886,803,257	(11,901,480)
PAYMENTS			
Compensation of Employees	3,002,542,855	3,621,156,937	(618,614,082)
Use of goods and services	1,231,466,743	1,061,971,022	169,495,721
Transfer to other Government entities	1,284,994,627	717,579,545	567,415,082
Other Grants and Transfers	190,581,517	275,542,258	(84,960,741)
Acquisition of Assets	985,961,862	941,433,931	44,527,931
Other Payments	106,003,376	310,939,749	(204,936,373)
STATEMENT OF ASSETS AND LIABILITES			
Fund Balance b/f	1,333,905,512	1,359,986,921	(26,081,409)
Prior Year Adjustment	(783,017,066)	127,917,218	(910,934,284)

Consequently, the differences could not be confirmed.

5. IFMIS Result

5.1 IFMIS Payment Details

- i. The statement of receipts and payments reflects total payments of Kshs.6,928,623,445. However, from the analytical review of the IFMIS payment details, we noted that during the period between September 2018 and December 2018 total payments of Kshs.353,150,343 were effected through IFMIS as cash payments contrary to County Financial Accounting and Reporting Manual Section 6.7.6 which prohibits use of cash to make payments to independent contractors. It was not clear how the payments involving large

sums of funds were indicated as cash payments. No explanation was provided as to why the payments were made in cash.

- ii. Further, the County carried out IFMIS transactions from which analytical review indicates that a total of Kshs.29,989,409 series of payment vouchers were reflected to have been raised but omitted in the IFMIS and thus not produced for audit. From the system it was not clear how much payment amount was transacted with missing entries or series.

Consequently, the management was in breach of regulation and the completeness and accuracy of the payments totalling Kshs.6,928,623,445 for the year ended 30 June 2018 could not be confirmed.

5.2 Payments Made during Weekends

From the analytical review of the IFMIS payment details, it was noted that Kshs.6,436,174 was deposited in the County deposits account on 1 July 2017 on a Saturday while on Sunday 2 July 2017 Kshs.6,245,234 was paid out to Kisumu deposits bank account while Kshs.5,375,508 retention money was also refunded to various contractors according to IFMIS on the same day.

Further, the following unusual payments totalling to Kshs.10,810,022 were also made on weekends as reflected in IFMIS records.

	IFMIS Extract	Date	Kshs
1	Daisco Engineering Company Limited	01 July 2017	3,173,758
2	Afya Sacco Society Ltd-Loan Deductions	01 July 2017	2,000,000
3	Carren Nancy Atieno Otieno	01 July 2017	237,157
4	Edward Okoth Omol	01 July 2017	237,157
5	Kenindia Assurance	01 July 2017	61,168
6	Bella Amondi Oyugi	01 July 2017	56,000
7	Otieno Evans Ogweno	01 July 2017	56,000
8	Peresia Akoth Omino	01 July 2017	56,000
9	Geosco Construction Company Limited	02 July 2017	3,173,758
10	Sajero Investment Limited	02 July 2017	1,759,024
	Total		10,810,022

Consequently, no explanation was provided to support the transaction made on a weekend.

5.3 Unaccounted for Payment

Included in the IFMIS payment records by the City of Kisumu of Kshs.907,612,498 is Kshs.164,711,320 payments to Maxwell Ogonda and Associates from different budget items. Supporting documents like payment vouchers, procurement documents were not availed for audit verification. Further clarification by the Finance Department vide their letter to Director of IFMIS Ref:CGF/FIN/N/T/14/VOL.IV dated 29 October 2018 indicated that, the payments were made to the City of Kisumu through IFMIS supplier No.171084 which was allocated by the National Treasury to Maxwell O. Ogonda as reported by IFMIS payment details was an anomaly. However, a review of the recurrent and development bank statement revealed that the payments were actually effected between date 6 September 2017 to 18 May 2018.

Consequently, it has not been possible to ascertain if the County Government obtained value for money and the propriety of expenditure totalling to Kshs.164,711,320 could not be confirmed for the year ended 30 June 2018.

6. Outstanding Revenue

6.1 Outstanding Property Rates

The statement of assets and liabilities reflect nil accounts receivables balance at Note 14. However, information availed indicates that outstanding property rates in the County was Kshs.9,089,779,053. Further, the County Treasury has not put in place stringent measures to recover these outstanding revenue. The outstanding property rates balance of Kshs.9,089,779,053 as at 30 June 2018 has also not been disclosed under the note 14 to the financial statement as required under IPSAS. The valuation rolls which provides values of rates of all property within the County had not been up dated since 2007 and therefore did not capture the current status of property in the County.

6.2 Outstanding House Rent

The statement of assets and liabilities reflect nil accounts receivable balance as at 30 June 2018. However, information available indicates the outstanding house rent balance of Kshs.224,900,316 as at 30 June 2018 has not been disclosed under the notes to the financial statement as required under IPSAS. The county treasury has also not put in place stringent measures to recover these outstanding revenue. Further analysis of rent recoveries through the check-off system (payroll) revealed that Kshs.5,305,200 deducted from employees as house rent was not captured in the LAIFOMS revenue returns.

In view of the foregoing the accuracy and completeness of the revenue for the year ended 30 June 2018 could not be confirmed.

7. Transfers to Other Government Units

The statement of receipts and payments reflects an amount of Kshs.717,579,546 as transfer to other government units while Note 8 to the financial statements did not give details of which entities received the funds. Further, included in the transfers figure of Kshs.717,579,546 is Kshs.369,017,342 transferred to level 5 Hospital - Jaramogi Oginga Odinga Teaching and Referral Hospital (JOOTRH). However, no documentary evidence was availed to confirm or acknowledge the receipt of Kshs.369,017,342. In view of the above, the propriety of the transfers to Other Government Units of Kshs.717,579,546 could not be confirmed.

8. Medical Services-Revenue from the Hospital

Included in the statement of receipts and payments is County own generated receipts of Kshs.886,803,257 which included an amount of Kshs.494,550,045 which in turn has a balance of Kshs.195,309,850 under medical services-revenue from medical hospitals. However, verification of medical services revenue for the six facilities visited, revealed a collection of Kshs.196,834,246 as tabulated below against the amount disclosed in the financial statement balance of Kshs.195,309,850 as medical services revenue from hospitals resulting to a difference of Kshs.1,524,396. The management has not explained the difference.

Medical Services Reserve:

Hospitals	Kshs.
Jaramogi Oginga Odinga Teaching and Referral Hospital	133,443,418
Kisumu County Hospital	36,375,968
Ahero	7,646,550
Kombewa	4,495,110
Victoria	10,036,715
Nyakach	4,836,485
Total	196,834,246

In the foregoing, the accuracy and validity of the County own generated receipts difference of Kshs.1,524,396 could not be confirmed.

9. Building Plans Approvals

Included in the statement of receipts and payments is county own generated receipts totalling Kshs.886,803,257 include Kshs.494,550,045 which in turn include an amount of Kshs.22,399,840 in respect of the building plan approval. However, the amount differs from the Local Authorities Integrated Financial Operations Management Systems (LAIFOMS) collection report, e-construction and financial statement for the revenue stream of Kshs.28,798,286, resulting in an explained difference of Kshs.6,398,446. Further, revenue records to support revenue collected from the sub-counties were not

provided for audit review. As a result, it was difficult to establish and analyze actual revenue collected and banked.

Consequently, the accuracy and validity of the county own generated receipts of Kshs.6,398,446 could not be confirmed.

10. Ineligible Expenditure on Legal fees

Included in the receipts and payments is use of goods and services of Kshs.1,061,971,022 which includes legal expenditure of Kshs.137,642,730. This was in respect of a case in the High Court of Kisumu Miscellaneous Application No 104 of 2015 arising from Kisumu MISC APPL NO.175 OF 2002 Ref to Ken Pundo and Company Advocates Vs Municipal Council of Kisumu and County Government of Kisumu County as 1st and 2nd respondent respectively. The following issues were noted in relations to the mention case:

- Ken Pundo & Company Advocates were engaged to collect and remit outstanding rates by the defunct Municipal Council of Kisumu.
- Ken Pundo were to retain 15% of the rates collected as their fees for the assignment.
- Ken Pundo & Company Advocates collected over 40 Million Kenya shillings as unpaid rates and failed to remit the money to the defunct Municipal Council as per the Affidavit by the former Chief Officer Department of Finance dated 16 May 2017.
- Later, the County Government of Kisumu ended up paying Kshs.29,002,730 to Ken Pundo and Company Advocates being premised as final settlement of the matter. The County Government then did not make any further payment prompting Ken Pundo & Co. Advocates to move to court for an order of mandamus by a notice of motion dated 27 April 2017.

By the time of the ruling, the debt had accrued interest totalling to Kshs.189,241,923. The County Government in its defense first engaged Wasuna & Co. Advocates later brought on board Amondi & Co. Advocates to take up the case. The contract agreement of the two legal firms were not provided for audit review.

As a result, the County Government of Kisumu incurred Kshs.137,642,730 by the court ruling and accrued interest relating to this case which resulted in an ineligible expenditure due to delay in adhering to the court ruling as tabulated below:

Payee	Date of	Amount Kshs.
Ogejo Olendo & Company Advocates	29 March 2018	20,000,000
Ogejo Olendo & Company Advocates	23 April 2018	20,000,000
Ogejo Olendo & Company Advocates	27 April 2018	20,000,000

Payee	Date of	Amount Kshs.
Unremitted Rates by Ken Pundo & Company Advocates		40,000,000
Ken Pundo and Company Advocates		29,002,730
Amondi and Company Advocates	30 November 2017	4,640,000
Amondi and Company Advocates	24 July 2017	4,000,000
Total		137,642,730

Further, there was no documentary evidence to show that the County sought for formal authorization from the Attorney General.

Consequently, the propriety of the expenditure amounting to Kshs.137,642,730 as legal expenditures could not be confirmed.

11. Irregular Expenditure on KICOSA Games

Included in the receipts and payments under other payments figure of Kshs.310,939,749 is Kshs.15,000,000 incurred on KICOSA games. However, a review of the supporting documents provided, we noted that the list of participants attached did not indicate the details of expenses incurred. Consequently, the propriety of the expenditure amounting to Kshs.15,000,000 could not be confirmed.

12. Undelivered Dairy Animals

Included in the receipts and payments under use of goods and services figure of Kshs.1,061,971,023 is Kshs.3,696,300 paid to a supplier for supply of 27 Ayrshire dairy cows. However, the following anomalies were noted;

- Both AheroSkytop Enterprise and Stamili Contractors were not in the list of prequalified suppliers.
- Fremerc Builders Limited was prequalified for the supply of general stationery and computers.
- There was no notification of intention to enter into a contract for unsuccessful bidders indicating reasons why the bid was unsuccessful contrary to Section 87 of the Public Procurement and Asset Disposal Act, 2015.
- No opening minutes were availed for audit review.
- Invoice No.4103 dated 25 May 2017 indicated 27 Ayrshire dairy cows.
- Delivery Note was dated 29 May 2017 which indicated all 27 cows were delivered by a truck which no registration number was indicated on the delivery note.

Our audit examination report dated 29 May 2017 indicated only one cow ear tag – KSM, KCG 038 was attached thus we could not ascertain the deliveries for the remaining 26 cows which no documentation was availed despite being acknowledged as received on 29 May 2017 as per the delivery note. However, from the additional list of beneficiary attached, the requisitions notes, receipt vouchers and issue notes were not provided.

Consequently, the propriety of the expenditure of Kshs.3,696,300 could not be confirmed.

13. Unrecorded Maintenance of Plant, Machinery and Equipment Costs

Included in the statement of receipt and payment under use of goods and services figure of Kshs.1,061,971,022 included an amount of Kshs.192,252,317 which in turn had a balance of Kshs.17,724,440 paid to the maintenance of plant, machinery and equipment and motor vehicles. However, the inspection report and work tickets for the plant, machinery and equipment and vehicles were not provided. In addition, the cost of repairs was not recorded in the respective plants and vehicles log books (GP 55) as is required. In the circumstances, the validity and propriety of the expenditure of Kshs.17,724,400 could not be confirmed.

14. Irregular Award of Tenders of Fertilizer and Seedlings

Included in the statement of receipts and payments under use of goods and services figure of Kshs.1,061,971,022 is specialized material and services figure of Kshs.192,252,317 which in turn includes Kshs.9,841,000 paid to various companies for supply of seedlings and fertilizers. However, from the quotations it was noted that even though the companies were different; the director, phone number, postal address of the five companies were same. The director of the five companies which quoted did not also make a declaration that she owns the five companies that tendered for the supply of seeds and fertilizer. The contracts were therefore issued without competitive bidding. In the circumstances, the value for money and propriety of the expenditure of Kshs.9,841,000 could not be confirmed.

15. Payment for Goods Not Delivered

Included in the statement of receipts and payments under use of goods and services figure of Kshs.1,061,971,022 included an amount of Kshs.192,252,317 which in turn had a balance of Kshs.4,695,000 paid to the two firms for supply of bull semen, liquid nitrogen gas, artificial insemination kits and liquid containers (50 litres) as tabulated below:

	Suppliers	Items supplied	Quantity	Rate Kshs.	Amount Kshs.
1	Pesh Ventures	Liquid Nitrogen Container (50 Litres)	2	260,000	520,000
		Artificial Insemination Kits	4	260,000	1,040,000
		Bull semen	300	450	135,000
					1,695,000
2	Wayden General Merchant	Bull semen	3,500	400	1,400,000
		Liquid Nitrogen	4,000	400	1,600,000
					3,000,000
	Total Amount				4,695,000

However, the following anomalies were noted:

- i) No supporting stores records such as ledger cards and issue vouchers were provided for audit review.
- ii) Verification of the S13 availed indicated that two different S13 were used to receive the same items like S13 No 020548 of 30 May 2018 and S13 No 11850 of 4 June 2018.
- iii) S11 Nos. 022858 and 022859 of 31 May 2018 used to issue the said items against store ledger card (S3) Nos. 020333, 02034, and 02035 of 4 June 2018. It was not clear how the S11s (County Requisition and Issue Vouchers) were raised before the items were received in store vide S3 (Stores Ledger and Stock Controls Cards).

In the circumstances, it could not be confirmed whether value for money was realized from the supply of bull semen, liquid nitrogen gas, artificial insemination kits and liquid containers worth Kshs.4,695,000.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of County Executive of Kisumu 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 adverse opinion.

Emphasis of Matter

1.0 Budget Performance Analysis (Revenue and Expenditure)

1.1 Revenue Analysis

1.1.1 Under Collection of Revenue of Own Revenue

From the financial records, the executive had budgeted to collect Kshs.1,148,819,236. However only Kshs.866,803,257 was collected leading to under collection of 24% as at 30 June 2018. Failure to collect revenue affects the implementation of the budgeted activities thus denying the citizens the desired services.

Revenue Source	Budget Kshs.	Actual Kshs.	Percentage Receipts%
Opening balance from CRF A/C	550,888,446	16,722,341.00	3
Equitable Share	6,553,400,000	5,505,390,000.00	84
DANIDA	25,424,679	25,424,679.00	100
KDSP(World Bank)	46,361,941	46,361,941.00	100
Level 5 conditional Grant(reducing)	369,017,341	369,017,342	100
Conditional Allocation - Development of Youth Polytechnics	28,472,587	28,472,587.00	100
Conditional Allocations for Free Maternal health care	67,364,354	10,927,146.00	16
World Bank Grant for transforming health system	21,299,489	21,051,361.00	99
Conditional Allocation For Leasing of Medical Equipment	95,744,681	0.00	0
Conditional Allocation for Road Maintenance Fuel Levy Fund	242,061,249	200,307,000.00	83
Symbiocity Grant from Swedish Association of Local Authority & Regions	66,000,000	0.00	0
Total Share of National Revenue	8,066,034,767	6,223,674,397.00	77
Locally collected Revenue			
Main Revenue Streams			
Market Fees	87,427,504	64,875,542.00	74.20
Parking Fees	87,259,106	86,295,680.00	98.90
Bus Park	125,301,137	104,150,160.00	83.12
Boda Boda self-regulation	20,447,946	0.00	0.00
Rents	40,507,040	35,844,329.00	88.49
Land Rates	158,984,546	102,624,655.00	64.55
Single Business Permits	109,192,352	105,725,037.00	96.82
Building Plans	19,165,197	22,399,840.00	116.88
Liquor Licenses	18,154,304	15,981,564.00	88.03

Revenue Source	Budget Kshs.	Actual Kshs.	Percentage Receipts%
Sign Board promotion etc.	62,371,330	68,597,097	109.98
Public Health	2,581,298	2,254,197.00	87.33
Cess	0.00	6,204,533.99	-100.00
Others-Revenue	50,709,768	42,212,407.00	83.24
Subtotal for main revenue streams	782,101,528	657,165,041.99	84.03
Health	283,099,658	195,309,850.00	68.99
Agriculture , mechanization and training	12,967,028	16,470,933.00	127.02
Commerce, Trade and Tourism	1,544,763	1,180,120.00	76.39
Industrialization / Cooperatives	60,736	126,000.00	207.46
Education, Sports, Social services etc.	2,019,237	7,087,863.00	351.02
Physical planning /Public works	2,685,794	2,325,677.00	86.59
Water	7,361,261	6,262,760.00	85.08
Roads, Public Works Equipment Hire & Supervision	49,075,071	0.00	0.00
Energy and Mining	2,044,795	195,000.00	9.54
Green Energy and Mining	4,089,589	0.00	0.00
Environment (Pollution Administrative & Restoration charges)	1,635,836	679,250.00	41.52
Total Revenue from Other Sources	366,583,768	299,637,453.00	81.74
Gross Locally Collected Own Revenue	1,148,685,296	886,802,494.99	77.20
Grand Total	9,214,720,063	7,110,476,891.99	77.16

Expenditure Budget Analysis

1.1.2 Table 1: Summary of Recurrent Expenditure Implementation for 2017/2018

During the financial year 2017/2018 the County Government budgeted to spend a total of Kshs.6,373,047,672 to thirteen (13) departments to finance recurrent expenditure. However, the departments spent Kshs.5,958,576,967 which represents 93% absorption of the funds allocated for recurrent. The absorption rates by departments during the year are tabulated below:

Department	Budget Kshs	Actual Expenditure Kshs.	Absorption %
Agriculture, Livestock and Fisheries	276,577,089.00	227,879,237.60	82
City of Kisumu	674,086,853.00	837,530,798.05	124
Kisumu County Public Service Board	35,640,206.00	56,433,229.50	158
Education, Gender, Youth, Culture and Social Services	354,045,444.00	351,760,406.65	99
Office of the Governor and County Administration	428,113,117.00	377,899,741.25	88
Health Services	2,723,116,105.00	2,905,077,465.75	107
ICT and Communications	66,751,674.00	44,002,558.50	66
Industrialization and Enterprise Development	49,265,842.00	81,631,283.95	165
Roads, Transport and Public Works	175,855,502.00	117,776,592.95	67
Lands, Housing and Physical Planning	26,701,431.00	19,266,615.15	72
Commerce, Tourism and Heritage	41,325,959.00	29,618,701.95	71
Finance and Planning	769,066,840.00	917,629,832.25	122
Water, Environment and Natural Resources	211,736,649.00	104,140,740.90	49
Total Expenditure	6,373,047,000.00	5,958,576,967.00	93

Review of the budget performance by department shows that the City of Kisumu, Kisumu County Public Service Board, Health Services, Industrialization and Enterprise Development and Finance and Planning had the absorption rates of 124,158,607,165 and 122 percentages respectively which was above the approved budget. The County Assembly did not approve the over absorption through supplementary budget as per the Public Finance Management Act, 2012 Section 135(7).

1.1.3 Table 2: Summary of Development Expenditure Implementation for 2017/2018

A total of Kshs.2,837,890,784 was allocated to twelve (12) departments during the year under review. However, the implementation of these projects were behind schedule and as at 30 June 2018, only Kshs.941,433,931 had been spent which represent only 33% of the funds allocated for development. The number of projects budgeted during the year are as tabulated below:

Department	Budget Kshs	Actual Expenditure Kshs.	Absorption %
Agriculture, Livestock and Fisheries	134,916,875.00	57,446,301.30	43
City of Kisumu	141,776,557.00	70,081,700.00	50
Education, Gender, Youth, Culture and Social Services	140,508,161.00	37,892,603.00	27
Office of the Governor and County Administration	83,518,641.00	50,429,353.00	60
Health Services	163,356,316.00	1,999,816.80	1
ICT and Communications	34,508,157.00	5,693,931.80	17
Industrialization and Enterprise Development	136,904,910.00	31,716,627.00	23
Roads, Transport and Public Works	439,070,308.00	72,083,087.50	16
Lands, Housing and Physical Planning	169,130,412.00	3,234,920.00	2
Commerce, Tourism and Heritage	148,502,302.00	12,078,166.40	8
Finance and Planning	978,339,927.00	557,719,375.50	57
Water, Environment and Natural Resources	267,358,219.00	41,058,049.25	15
Total Expenditure	2,837,890,785.00	941,433,931.55	33

2.0 Revenue

During the financial year 2017/2018, the County Government had budgeted for County own generated receipts of Kshs.1,148,819,236. However, a total of Kshs.886,803,257 was collected resulting in a realized shortfall in own revenue collection by Kshs.262,015,979.

2.1 Record on Revenue not Availed for Audit

The County outlined its revenue sources from the County Finance Bill 2017/2018. However, the following revenue records were not availed for audit verification as detailed below:

2.1.1 Liquor License

The County Government did not produce approved list of liquor license of businesses from the five (5) Sub County Offices. It was not possible to confirm the accuracy of Kshs.15,981,564 reported as collected from liquor licenses.

2.1.2 House and Market Stall Rent

The County Government of Kisumu did not provide list of houses and tenants register for County owned houses. From the Finance Bill 2017/2018 it was established that the County owns different type of houses within the following estates: It could not be confirmed the total number of rental houses owned by County Government of Kisumu.

Estate	Type of House.
Lumumba	2 Bedrooms
Ondiek	2 Bedrooms
Mosque	3 Bedrooms
Kibuye	2 Bedrooms
Kibuye	2 Bedrooms
Makasembo	2 Bedrooms
Kodhek	3 Bedrooms
Arina Phasel &II	2 Bedrooms
Arina Phase III	2 Bedrooms
Arina Phase IV	2 Bedrooms
Anderson /Ofafa	2 Bedrooms
Lucy Magero Estate	2 Bedrooms
Nyando Nyandinga Estate	2 Bedrooms
Estate Shops	
Institutional Houses rent	Bungalows

From the LAIFOM system only the estates and institutional houses captured were Anderson/Ofafa, Kibuye and Lumumba. No explanation was given as to why the records for the estates could not be availed.

2.2 Own Revenue from Health

The records availed for audit in the Department of Public Health showed Kshs.6,017,755 as revenue collected during the year. However, no receipts or revenue were reflected in the financial statements under County own generated receipts resulting into unreconciled difference of Kshs.6,017,755 as detailed below:

Public Health	Kshs.
Examination Certificates	2,771,000
Slaughter House	1,961,540
Vaccination	1,285,215

Total	6,017,755
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2.3 Uncollected Revenue from Boda Boda Operators

The comparative revenue analysis availed for audit review indicates that no amount of revenue was generated against an approved budgeted amounts of Kshs.20,447,946 from the boda boda operators as a source of revenue stream to the County Government.

No reason was given for the omission of reflecting the amounts of revenue that may have been collected from the boda boda operators.

3.0 Unsurrendered Imprests

The total financial assets figure of Kshs.1,789,023,773 includes outstanding imprests totalling Kshs.247,182,643 as at 30 June 2018. However, it was noted that some officers were issued with multiple imprests without having surrendered the previous ones. Consequently, the management was in breach of regulations.

4.0 Expenditure

4.1 Construction of Roads

4.1.1 Unaccounted for Prime Cost Sum for Project Administration, Supervision and Management

During the year under review the management of Kisumu County Government deducted Kshs.12,574,142 from the contractors for project administration, supervision and management fee. The amount deducted were deposited into Kisumu County Cost and Contingency Fund Account No.1177287080 held at the Kenya Commercial Bank. Whereas, the main purpose and objective for the deduction of the project administration, supervision and management cost was to cater for the supervising engineers, project management committee allowances and to enhance capacity building. However, it was noted that amounts of Kshs.970,000 totalling to Kshs.11,500,000 were withdrawn and paid out from Cost and the Contingency Fund Account No.1177287080 to various contractors without any supporting evidence of works done.

Consequently, the propriety of the payments amounting to Kshs.11,500,000 could not be confirmed.

4.2 Incomplete Works

Included in the statement of receipts and payments under acquisition of assets figure of Kshs.941,433,931 included an amount of Kshs.720,07,308 which in turn includes a balance of Kshs.2,399,805 paid to a contractor in respect of construction of water

project at East Kolwa Buoye. However, examination of the contract documents revealed that the contract agreement date was 12 April 2018 before acceptance letter date of 16 April 2018. Physical verification carried out on 30 October 2018 revealed that pipeline works were done. However the following observations were noted: The BQ indicated an erection of 1 sign post at Kshs.80,000, physical verification carried out on 30 October 2018 revealed that:

- A wooden signpost erected at Chiga Centre by the contractor.
- A masonry chamber was poorly done and was incomplete despite the contractor having been paid.
- 3No water tanks at 3 water points were done and operational.
- The projects (water point tanks- 3No tanks) were not labeled and thus difficult to know the financier, contractor and the financial year which the project was done.
- The water points are located on private individual people's lands
- No land title deeds or legal contract agreements on sale were availed for audit view.

Thus it was difficult to confirm in case of disputes how amicable solution would be reached without the legal contract agreements.

Consequently, the propriety of the expenditure of Kshs.2,399,805 could not be ascertained.

4.3 Incomplete Works and Inflated Cost

Included in the statement of receipts and payments under acquisition of assets figure of Kshs.941,433,931 is Kshs.2,800,000 paid to a contractor in respect of construction of Nyangande Water Project (Pipeline Extension). However, physical verification carried out on 30 October 2018 revealed the following:

- Masonry chamber was poorly done (not finished and open prone to vandalism)
- 1No. Roto tank 3000 litres at Kshs.55,000
- 2No. sign post as per the BQ at Kshs.20,000 total Kshs.40,0000
- One water point verified at Arombo area (Ngong Nyangande) but done on a private person's land, fenced but no gate. Another pipeline done at a private land in Kaponyo/Nyakar (Awino Village), but no tank was installed.

- The project was not labelled thus difficult to know who is the client, financier, contractor and the period of construction
- No land title deeds or legal contract agreements on sale were availed for audit review.

Consequently, the propriety of the expenditure of Kshs.2,800,000 could not be confirmed.

4.4 Irregular Procurement on Consultancy Services

Included in the statement of receipts and payments under use of goods and services figure of Kshs.1,061,971.022, is Kshs.392,214,756 under the operating expenses of which Kshs.2,500,961 was paid for consultancy services in respect of fair trade practice policy during the year under review. However, procurement procedures and policies were not adhered to. The consultant who won the tender was not among the prequalified lists of 2016-2018. Further documents availed confirming the prequalification of the firm, indicates that the letter of prequalification notice was done on 24 November one year later after the annual tender prequalification. From the records, the firm was prequalified for consultancy services in work environmental survey employee, customer satisfaction survey and not fair trade practice policy. In the circumstances the procurement process was neither transparent nor competitive thus propriety and value for money on the consultancy cost of Kshs.2,500,961 could not be confirmed.

4.5 Inflated Prices on Specialized Materials

Included in the statement of receipts and payments under use of goods and services figure of Kshs.1,061,971,022 is Kshs.33,007,450 out of a total of Kshs.192,252,317 incurred on specialized material for Health Sector during the year under review. However, examination of records revealed that, Department of Health procured specialized materials at prices that were far much higher than those charged with Kenya Medical Supplies Agency (KEMSA) prices resulting in inflated prices on specialized materials by Kshs.33,007,450. This contradicted Section 54 of the Public Procurement and Asset Disposal Act, 2015 which stipulate that standard goods and services with known market prices shall be procured at the prevailing market prices. In the circumstances it was not possible to ascertain if the County Government attained value for money on expenditure totalling Kshs.33,007,450.

4.6 Procurement Services to Rehabilitate Kachok Dumpsite

The County Government advertised for the procurement of services for provision of abandoned quarry and rehabilitation of the Kachok dumpsite at a budget of Kshs.100,000,000. The tender was advertised through Standard Newspapers on 24 October 2017 which attracted to bidders i.e Eucken Ltd and Naya Holdings. The

Contract was awarded to Naya Holdings and agreement signed on 01 December 2017 for Kshs.99,250,000 inclusive of VAT.

The following anomalies were noted:

Technical Evaluation

- i) The ownership of the quarry belonged to Kisumu Concrete Ltd and no lease agreement between Naya Holdings and Kisumu Concrete Ltd was availed instead a notification confirm that Naya Holdings was allowed to dump the waste at the quarry.
- ii) The Machinery used belonged to Kisumu Concrete Ltd and no lease agreement was availed as a requirement for technical evaluation.
- iii) Nema certificate of compliance was availed 2 months after the contract was awarded.

No periodic reports on hydrological reports, number of trips made by the tippers, operational days of plant equipment, environmental social management plan and implementation status were also not availed.

- iv) Finance evaluation - this committee awarded contract to Naya Holdings at Kshs.99,250,000, exclusive of VAT. This contradicted the contract agreement that awarded Kshs.99,250,000 inclusive of VAT. From our observation it was clear that the procurement regulations were not adhered to. It is not clear whether VAT was charged from the services rendered.
- v) The firm had received Kshs.93,675,577 as at 30 June 2018.

Consequently, it has not been possible to ascertain if the County Government obtained value for money on expenditure totalling Kshs.99,250,000.

4.7 Retention Money paid to County Government of Kisumu

Financial records revealed that Kshs.14,500,000 being 10% retention money was paid into Kisumu County recurrent account. It was not clear why the County Government incurred the expenditure and paid herself 10% retention money as if it's a supplier or contractor. Also, it was noted that payment voucher did not have the supporting documents to reallocate funds from the deposit account which belongs to suppliers. Further it was not possible to ascertain how the funds were utilized. Consequently, the propriety of the expenditure of Kshs.14,500,000 under retention money could not be confirmed.

4.8 Unsupported Payment for Legal Fee

Included in the statement of receipts and payment under use of goods and services figure of Kshs.1,061,971,022 is an amount of Kshs.2,500,000 transferred to the imprest

account and later withdrawn to pay for legal services. It was not clear why the expenditure on legal fees was paid through the imprest account. The legal fee demand note and case number were not attached on the payment voucher. The additional information provided, indicated that the expense was incurred during the county security meetings which were not related to the legal services.

Consequently, the propriety of the expenditure amounting to Kshs.2,500,000 could not be confirmed.

4.9. Leasing of Medical Equipment

The statement of appropriation recurrent and development combined reflect budgeted total revenue of Kshs.9,214,720,064 which includes conditional allocations-leasing of medical equipment. It was further noted that according to County Allocation of Revenue Act, No. 23 of 2017, Section 5(1) (e) on conditional allocations for leasing of medical equipment as set out in Column F of the Second Schedule, Kshs.95,744,681 was to be included in the budget estimates according to Intergovernmental agreement in line with Article 187 of the Constitution. However, no Intergovernmental agreement on leasing of medical equipment was availed for audit verification. Consequently, the County Executive management was in breach of the law and the value for money and supply of equipment could not be determined.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, are of most significance in the audit of the financial statements of the current year. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. For each matter below, a description of how the audit addressed the matter is provided in that context.

I have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit section of the report, including in relation to these matters. Accordingly, the audit included the performance of procedures designed to respond to the assessment of the risks of material misstatement of the financial statements. The results of the audit procedures, including the procedures performed to address the matters below, provide the basis for my audit opinion on the accompanying financial statements.

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 matter(s) described in the Basis for Adverse Opinion section, I have determined that there are no other key audit matters to communicate in my report.

REPORT ON COMPLIANCE WITH LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for [Conclusion on Lawfulness and Effectiveness in Use of Public Resources/Adverse Opinion] section of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Annual Reporting by Accounting Officers

The entities of the County Government have not prepared separate financial statements relating to their operations as required by Section 164 of the Public Finance Management Act, 2012. Consequently, the management was in breach of the law.

2. Unaccounted for Bulk Purchase of Fuel and Lubricants

Included in the statement of receipts and payments under use of goods and services is Kshs.7,932,780 being payment of fuel and lubricant by the department of roads, transport and public works. However, individual work tickets for the respective vehicles to fully account for the fuel and lubricants purchased were not availed for audit review. Consequently, the propriety of the expenditure of Kshs.7,932,780 on fuel could not be confirmed.

3. Compensation of Employees

Included in statement of receipts and payments is compensation of employees totalling to Kshs.3,621,156,937. However, a review of the supporting documentation provided for audit review revealed the following anomalies.

- 3.1** The wage bill constitutes 51% 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%.
- 3.2** 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.

- 3.3** Documents to support the identification of vacancies, advertisement of the positions, and shortlisting and interview minutes for the recruitments in the year by the County Public Service Board were not availed for audit review.

4. Acquisition of Assets

4.1 Unpre-qualified Supplier

Included in statement of receipts and payments under acquisition of assets figure of Kshs.941,433,931 which included an amount of Kshs.5,693,931 which in turn has a balance of Kshs.3,691,200 paid to NFOBIP Kenya Ltd for the supply and delivery of SMS system and USSD. However, scrutiny of the pre-qualified list of supplier and contractors, we noted that the firm was not prequalified contrary to Section 95(3) of the Public Procurement and Asset Disposal Act, 2015. The contract may have been issued without competitive bidding. In the circumstances the procurement process was neither transparent nor competitive thus propriety and value for money on the consultancy cost of Kshs.3,691,200 could not be confirmed.

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 INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

Conclusion

As required by Section 7 (1) (a) of the Public Audit Act, 2015, because of the significance of the matters discussed in the Basis for [Conclusion on Effectiveness of Internal Controls, Risk Management and Governance/Adverse Opinion] section of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

Basis for Conclusion

1. County Own Generated Revenues

Lack of Integration of Revenue Collection System

From the revenue record, the executive has put into place four (4) revenue collection systems during the year under review. The County Government of Kisumu collected its revenue through these Systems like Riverbank Solution (ZiZi), e-Citizen, LAIFOMS, FUNSOFT – Hospital and Departments. However, the four system are not integrated to enable easier and accurate reporting on revenue. We further noted that more than one system was used to collect revenue from the same source for instance parking fee was collected by ZiZi and LAIFOM, building approvals by e-Citizen and LAIFOM as detailed below:

i. Riverbank Solution (ZiZi)

This system was used to collect revenue from bus park, daily parking and markets. The agreement availed did not indicate the reports the County could generate from the system and its back-up reports. Also the Riverbank Solution did not generate annual reports needed for reporting instead produced segmented reports. However, the soft copy data availed for audit did not clearly define the revenue by their source. It was not possible to confirm the accuracy of figures reported of bus park and daily parking fees.

ii. e-Citizen

The e-Citizen was used to collect revenue from trade license and building plans. The payments were made through mobile transaction pay bill numbers. However, the mobile transaction statements were not availed for audit. The accuracy of trade license of Kshs.105,725,037 could not be confirmed.

iii. Funsoft

This system was used to collect revenue from the hospitals within the County. Review of the reports generated revealed variances not explained. For Instance, at Jaramogi Oginga Odinga Referral Hospital, the annual revenue collected was Kshs.214,087,019 while monthly revenue as per Funsoft was Kshs.133,443,418. For Kisumu County Hospital annual summary was Kshs.35,878,626 but monthly was Kshs.26,013,076 as per system. Management did not give explanations to the variance noted.

iv. LAIFOMS

This system was used to collect revenue on land rates and house rents. From the system it reflected huge sums on outstanding land rates and rent. However, no revenue statement reconciliation reports were availed to confirm the outstanding revenue reported.

v. Department Collections

Revenue from departments like, Water, Agriculture, Transport among others, were reported but no documentation was provided to determine the system used to collect and account for the collection. The revenue receivers at the departments were not issued with receipts acknowledging receipts of revenue contrary to Section 81(3) of County Public Finance Regulations, 2015.

2. Undefined Revenue

Statement of receipts and payment include revenue in respect to trade License (Single Business Permit) of Kshs.101,722,145 being revenue received as at 30 June 2018. However, an amount of Kshs.101,722,145 included single business permits amounting to Kshs.5,365,801 as undefined activity code. We could not establish the type of business or the activity which the license relates to in order to establish if the correct amounts were collected.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standard requires 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.

3. Previous Year Matters

The County Executive did not indicate the status and follow up of audit issues in the prior year financial statement as requested in the reporting template prescribed by the Public Sector Accounting Standards Board.

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 Financial Reporting standards/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 County Executive of Kisumu's ability to continue as a going concern/ sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the County Executive of Kisumu 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 County Executive of Kisumu 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 non-compliance. 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 County Executive of Kisumu policies and procedures may deteriorate.

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.
- 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 County Executive of Kisumu ability to continue as a going concern or 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 County Executive of Kisumu to cease to continue as a going concern or 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 County Executive of Kisumu 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

14 February 2019