REPORT OF THE AUDITOR-GENERAL ON COUNTY EXECUTIVE OF KISUMU FOR THE YEAR ENDED 30 JUNE, 2019

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 40, which comprise of the statement of assets and liabilities as at 30 June, 2019, statement of receipts and payments, statement of cash flows and the summary statement of appropriation - 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, 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 the County Executive of Kisumu as at 30 June, 2019, 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 and the County Governments Act, 2012.

Basis for Adverse Opinion

1.0 Inaccuracies in the Financial Statements

1.1 Variance Between the Financial Statements and the Integrated Financial Management Information Systems (IFMIS)

The comparison of the balances reflected in the financial statements and the IFMIS reports revealed significant discrepancies as detailed out below: -

Item	Financial Statement Figure (Kshs.)	IFMIS Report Figure (Kshs.)	Variance (Kshs.)
Receipts	8,920,654,818	12,020,772,369	3,100,117,551
Payments	7,505,936,398	7,588,960,488	83,024,090
Cash and Bank	1,453,899,364	37,387,135,688	35,933,236,324
Receivables	783,346,771	1,588,160,386	804,813,615
Payables	18,195,925	31,525,364,432	31,507,168,507

The Management attributed the difference to lack of reconciliation since the financial year 2013/2014, system challenge that led to double posting of receivables. Management has however, indicated that they were in the process of forming a taskforce to address the variances and that they had initiated the process of reconciliations as well as reversing the double postings.

1.2 Variances between Statement of Receipts and Payments and Supporting Schedules

The financial statements presented for audit differ with the ledger schedules submitted for review as detailed below:-

Item	Financial statements (Kshs.)	Schedule Balance (Kshs.)	Variance (Kshs.)
Communication, Supplies and Services	14,646,372	14,281,131	365,241
Training Expenses	82,519,393	21,549,331	60,970,062
Hospitality, Supplies and Services	99,298,531	65,087,225	34,211,306
Specialized Material and Services	108,545,869	113,175,648	(4,629,779)
Routine Maintenance of Vehicles and other Transport Equipment	273,924,616	29,983,673	243,940,943
Purchase of Certified Seeds, Breeding Stock and Animals	53,954,610	36,672,900	17,281,710
Research, Studies, Project Preparation and Design	225,495,174	168,721,764	56,773,410
Rehabilitation of Civil Works	191,673,950	42,304,770	149,369,180
Acquisition of Land	18,363,462	10,000,000	8,363,462
Purchase of Office Furniture and General Equipment	50,944,264	-	50,944,264
Refurbishment of Buildings	21,798,425	11,809,092	9,989,333
Construction of Buildings	283,068,028	125,478,299	157,589,729
Construction of Roads	665,723,655	382,640,636	283,083,019
Construction and Civil works	757,941,035	430,309,088	327,631,949
Purchase of Vehicles and Other Transport Equipment	120,071,091	18,421,042	101,650,049

1.3 Inaccuracies in the Statement of Cash Flows

The statement of cash flows reflects cash and cash equivalents of Kshs.2,241,864,946 which differs with the cash and cash equivalents figure of Kshs.1,454,870,534 reflected in the statement of assets and liabilities resulting to an unreconciled variance of Kshs.786,994,412. The statement also reflects a net increase in cash and cash equivalents of Kshs.572,106,238 which differs from the surplus for the year of Kshs.1,414,718,420 leading to an unexplained difference of Kshs.842,612,182.

Further, the statement of cash flows reflects net cash flow from operating activities of Kshs.3,076,334,342. However, a casting error of Kshs.21,843,565 was noted resulting to net cash flow from operating activities of Kshs.3,098,177,907. Similarly, the statement reflects a nil adjustment for change in imprests and advances and change in accounts payable which differs with the statement of financial assets computed change in imprests and advances, and accounts payables of Kshs.536,164,128 and Kshs.101,069,500 respectively.

In addition, the statement of cash flows reflects cash and cash equivalents of Kshs.1,669,758,348 at the end of the financial year for 2017/2018 which differs with the amount of Kshs.1,541,841,130 shown in the prior year audited financial statements.

1.4 Inaccuracies in the Statement of Assets and Liabilities

The statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.1,454,870,534. However, a casting error of Kshs.21,843,566 was noted resulting to cash and cash equivalents of Kshs.1,476,714,100.

Further, the statement reflects a fund balances brought forward figure of Kshs.1,669,758,348 for 2018/2019 and Kshs.1,359,986,921 for 2017/2018. However, Note 16 to the financial statements reflects an amount of Kshs.2,220,021,381 and Kshs.1,669,758,348 as fund balances for 2018/2019 and 2017/2018 respectively.

In addition, the statement includes a debit balance of Kshs.842,611,822 described as prior year adjustment which has been explained as payments made after 30 June, 2019 on receivables and cash in hand. However, the balance has not supported with documentation to show how it changed from Kshs.127,917,218 in the previous year to Kshs.842,611,822 in the year under review.

1.5 Inaccuracies in the Statement of Receipts and Payments

The statement of receipts and payments reflects a comparative figure of Kshs.569,324,342 in respect of transfers to other government entities while Note 3 to the financial statements reflects a figure of Kshs.200,307,000 resulting to unreconciled difference of Kshs.369,017,342.

Further, the statement reflects Exchequer releases receipts of Kshs.7,726,056,556 which differ with the analysis of transfers from the Exchequer amount of Kshs.8,393,806,189 shown under Annexure 1 to the financial statements resulting to an unreconciled variance of Kshs.667,749,633.

In addition, and as disclosed under Note 11 to the financial statements, the statement of receipts and payments reflects acquisition of assets balance of Kshs.2,526,071,309. However, a recasting of the schedule on acquisition of assets indicated an amount of Kshs.2,536,071,310, resulting to a casting error of Kshs.10,000,001.

1.6 Variance Between Statement of Appropriation - Recurrent and Development Combined and Budget Execution by Programmes and Sub-Programmes

The summary statement of appropriation - recurrent and development combined reflects budgeted and actual expenditure on comparable basis of Kshs.11,139,973,171 and

Kshs.7,505,936,398 respectively which differs with total budgeted and actual expenditure amounts of Kshs.11,436,589,374 and Kshs.7,901,724,795 shown in the statement of budget execution by programmes and sub-programmes. The resultant differences of Kshs.296,616,203 and Kshs.395,788,397 for budgeted and actual expenditure were not reconciled or explained.

1.7 Variance Between Compensation of Employees Amounts in the Financial Statement and IPPD Payroll

The statement of receipts and payments reflects a figure of Kshs.3,439,295,636 as compensation of employees. However, a review of the IPPD payroll for the twelve-months showed that a total of Kshs.3,510,438,413 was paid as employees cost resulting to a difference of Kshs.71,142,777 which has not been reconciled.

Consequently, the accuracy, completeness and validity of the financial statements for the year ended 30 June, 2019 could not be confirmed.

2.0 Non-Disclosure of County Assembly Receipts

The statement of receipts and payments reflects receipts from Exchequer releases of Kshs.7,726,056,556. However, Annexure 6 on inter entity transfers reflects transfers to County Assembly of Kshs.684,802,036 which has not been included in the statement of receipts and payments.

Consequently, the accuracy of the Exchequer releases of Kshs.7,726,056,556 reflected in the statement of receipts and expenditures for the year ended 30 June, 2019 could not be confirmed.

3.0 Lack of Reconciliations of Cash and Bank Balances

The statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.1,454,870,534. The balance represented bank balances of Kshs.1,453,899,364 and cash balances of Kshs.22,814,736. However, the following anomalies were noted;

The cash and cash equivalents include thirty-three (33) bank accounts whose cash transaction records were not reconciled. The Management failed to prepare proper cash books and bank reconciliation statements for the main County Executive bank accounts together with sector accounts as required by Regulation 90 of the Public Finance Management (County Governments) Regulations, 2015.

Further, the Management did not disclose the balance of four (4) bank accounts totalling Kshs.323,168,000 thereby understating the bank balances by the same amount as shown below:

Account Number	Bank Statement Certificate Balance (Kshs.)	Financial Statement Balance (Kshs.)	Variance (Kshs.)

CBK- Recurrent A/C. 1000170956	200,156,251	0	200,156,251
CBK-Development A/C.1000170867	100,817,667	0	100,817,667
KCB-Contingency Fund A/C.1177287080	19,453,252	0	19,453,252
KCB-Agricultural Training Centre A/C.1148451196	2,740,730	0	2,740,730
Total	**323,168,000**	**0**	**323,168,000**

In addition, the cash and cash equivalent excludes three (3) fund bank accounts that had a total of Kshs.48,386,762 as at 1 July, 2018 but has been reduced to nil balance. However, there is no evidence of the details of the transactions that were processed through the accounts and utilised all the funds by the end of the year at 30 June, 2019.

Consequently, the accuracy of cash and cash equivalents balance of Kshs.1,454,870,534 reflected in the statement of assets and liabilities as at 30 June, 2019 could not be confirmed.

4.0 Irregular Transfers to Other Government Units

The statement of receipts and payments reflects an amount of Kshs.151,641,045 as transfers to other government units. However, it was noted that the expenditure was not included in the approved budget contrary to provisions of Regulation 43(2) of the Public Finance Management (County Governments) Regulations, 2015 as follows:

i. A total of Kshs.50,000,000 was transferred to imprest operation account but no documentation was provided to support the expenditure and neither was it included in the year end cash balance.

ii. Kshs.6,590,946 was transferred to two (2) local companies which did not qualify as government entities.

iii. Kshs.29,832,774 was transferred to hospitals, health centres and dispensaries and expensed without surrender or accountability documents

Consequently, accuracy, completeness and the validity of the amount reflected as transferred to other Government entities of Kshs.151,641,045 in the statement of receipts and payments for the year ended 30 June, 2019 could not be confirmed.

5.0 Unaccounted for Health Appropriations-in- Aid

As disclosed under Note 4, the statement of receipts and payments reflects County own generated receipts of Kshs.1,012,716,638 which includes Kshs.146,657,998 collected from public health facilities operations. However, NHIF contributions totalling Kshs.59,764,891 were not transferred from the Provincial General Health Management Account to the Kisumu County Health Revenue Account thereby understating the health revenue by the same amount.

Consequently, the completeness and accuracy of public health income of Kshs.146,657,998 could not be confirmed.

6.0 Acquisition of Assets

As disclosed under Note 11 to the financial statements, the statement of receipts and payments reflects a balance of Kshs.2,526,071,309 under acquisition of assets. Examination of available records revealed the following unsatisfactory issues: -

6.1 Payments for Goods not Delivered

The above balance includes an amount of Kshs.53,954,610 for purchase of certified seeds, breeding stock and live animals which in turn has a balance of Kshs.2,692,800 paid to a firm for supply and delivery of 153,000 fingerlings. Physical verification carried out on 16 July, 2019, showed that only 90,000 fingerlings had been delivered leaving a balance of 63,000.

6.2 Payment for Works Not Done

The balance further includes an amount of Kshs.757,941,035 for construction and civil works which constitutes an amount of Kshs.1,998,790 paid to a local company for equipping a borehole water project in Nyando Sub-County against work done and certified costing Kshs.1,286,540.

6.3 Irregular Purchase of Land

In addition, the balance includes an amount of Kshs.18,363,462 for purchase of land out of which a total of Kshs.12,400,000 was spent to purchase two (2) parcels of land in Kisumu/Manyatta B and Kisumu Nyalenda A. A review of supporting documents indicates that the Management did not invite bidders to submit expression of interest (EOI) from interested sellers but instead used direct procurement method. Further, no valuation report from the Ministry of Lands and Housing was provided for audit verification.

Consequently, the accuracy, completeness and validity of Kshs.2,526,071,309 in respect of acquisition of assets reflected in the statement of receipts and payments for the year ended 30 June, 2019 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of County Executive of Kisumu Management in accordance with ISSAI 130 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.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

Other Matter

1.0 Budget Control and Performance Analysis

The summary statement of appropriation - recurrent and development combined reflects approved receipts budget and actual on comparable basis of Kshs.11,139,973,171 and Kshs.8,920,654,818 respectively resulting to a shortfall of Kshs.2,219,318,353 or 20% of the approved budget. Similarly, the statement reflects an approved expenditure budget and actual on comparative basis of Kshs.18,530,935,379 and Kshs.7,505,936,398 respectively resulting to an overall under expenditure of Kshs.3,634,036,773 or 33% of the budget. The under expenditure is indicative that some planned activities and programs for the year may not have been undertaken.

Consequently, under expenditure on development budget may impact negatively on service delivery to the residents of Kisumu County.

2.0 Outstanding Imprests

The statements of assets and liabilities reflects account receivables - outstanding imprest figure of Kshs.783,346,771. However, the following anomalies were noted: -

i. The outstanding imprest balance was disclosed under Note 15 to the financial statement. However, an annexure supporting the balance was not attached.

ii. A review of the imprests revealed that Kshs.534,413,482 were issued in the year 2014/2015 to various Health Institutions. Transfers to health institutions are posted as Authorities to Incur Expenditure (AIE) and not imprests. The Management therefore, overstated its outstanding imprest balance and understated its expenditure especially on use of goods and services.

iii. Several county employees held multiple imprests without having surrendered the previous imprests contrary to the regulations governing imprests.

Consequently, the accuracy and validity of outstanding imprest balance of Kshs.783,346,771 as at 30 June, 2019 could not be confirmed.

3.0 Pending Bills

As disclosed under Note 5.10 - Other important disclosures to the financial statement pending bills amounting to Kshs.2,862,822,660 which constitutes bills payable, pending staff payables and other pending payables of Kshs.2,447,601,228, Kshs.270,900,343 and Kshs.144,321,089 respectively. However, Annex 2, 3 and 4 on analysis of pending accounts payable reflect an amount of Kshs.188,928,594 while pending staff payables and other pending payables reflects nil amounts.

Further, pending bills records revealed that a total of Kshs.47,741,927 represents bills that were committed after 31 May, 2019 contrary to the provisions of Regulation 50(1) of the Public Finance Management (County Governments) Regulations, 2015 which states that all commitments for supply of goods or services shall be done not later than 31 May, each year except with the express approval of the Accounting Officer in writing.

No approval from the Management was obtained to justify the late commitments.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1.0 Non-Compliance with Annual Reporting by Accounting Officers

The Accounting Officers of the various County Government sectors and entities such as Departments, City Board, a Water Company among others 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 is in breach of the law.

2.0 Failure to Operationalize Emergency Fund

The Management spent Kshs.32,577,603 on emergencies during the year under review. However, Management has not operationalized the Emergency Fund in accordance with Section 110 of the Public Finance Management Act, 2012 which requires that a County Executive Committee may, with the approval of the County Assembly, establish an Emergency Fund to finance emergencies from appropriated funds.

Therefore, the Management is in breach of the law.

3.0 Non-Compliance with Expenditure Threshold Regulations and Employment Laws

The statement of receipts and payments for the year ended 30 June, 2019 reflects compensation of employees' expenditure of Kshs.3,439,295,636 which accounted for 38.5% of the total receipts of Kshs.8,920,654,818. This is above the thirty-five percent limit which is provided for under Regulation 25(1)(b) of the Public Finance Management (County Governments) Regulations, 2015.

Further analysis of the payroll data revealed that forty-nine (49) officers were earning net salaries which were below the one third of their basic salaries contrary to the Employment Act, 2007.

In addition, a review of the IPPD data showed that a total of Kshs.7,412,205 was deducted from employees for County Widows and Children Pension Scheme during the year under review. However, an amount of Kshs.3,671,357 was not remitted to the Kenya Revenue Authority.

Consequently, the Management is in breach of statutory laws.

4.0 Non-Compliance with the Public Procurement and Assets Disposal Act, 2015

4.1 Acquisition of Assets

As disclosed under Note 11 to the financial statements, the statement of receipts and payments reflects a balance of Kshs.2,526,071,309 under acquisition of assets. Examination of available records revealed the following unsatisfactory issues: -

4.1.1 Purchase of Heavy Duty Vehicle

The above balance includes an amount of Kshs.120,071,091 incurred on purchase of vehicles and other transport equipment. The Department of Governance and Administration procured a 4-wheel drive heavy duty vehicle through open tender at a cost of Kshs.19,546,000 in the month of November, 2018. The requisition from the user department was signed on 20 February, 2019 after the vehicle had already been procured. The vehicle engine capacity was 4451cc which exceeds the maximum limit of 3000cc for County Governors. Further, the bid documents to suppliers were delivered manually instead of uploading them on the County website as required by Section 98 of the Public Procurement and Asset Disposal Act, 2015.

4.1.2 Irregular Procurement of Consultancy Services

Further, the balance includes an amount of Kshs.225,495,174 for research, studies, project preparation, design and supervision. An amount of Kshs.89,910,966 being 10.4% of Kshs.1,352,459,503 was paid for consultancy services in respect of re-construction of Moi-Stadium. Examination of supporting documents revealed the following inconsistencies:

i. The valuation by the private quantity surveyor of the Stadium was initially Kshs.130,000,000 and was later changed by the tender valuation team to Kshs.1,352,459,503 according to a private survey carried out four months after the award of the tender.

ii. Requests for proposals were invited and the winning consultants bid of Kshs.13,556,000 being 10.4% of the tender cost of Kshs.130,000,000 as per the criteria set in the tender documents.

iii. Tender evaluation report dated on 21 February, 2019 recommended that the most responsive evaluated bidder/consultant who scored 80% be awarded the tender at a contract sum of Kshs.13,556,000.

iv. The second lowest bidder at Kshs.14,690,000 scored the highest marks (83) and should have been considered as per Section 127 of the Act. However, procurement procedures were not adhered to as the tender sum was varied from Kshs.13,556,000 to Kshs.89,910,966 without proper explanation.

v. On 26 February, 2019, the head of supply chain recommended that the winning proposal be awarded the tender at a percentage sum of 10.4% of the project cost which was to be established in the project estimates.

vi. The procurement of the private quantity surveyor is not explained and supported.

vii. The Management made a one-off payment contrary to the contract agreement signed on 22 May, 2019 which specified the payment terms at various phases of the project implementation.

Further, the amount of Kshs.225,495,174 for research, studies, project preparation, design and supervision also constitutes an amount of Kshs.4,200,000 paid for consultancy services on review of internal control systems through quotations contrary to the provisions of the Public Procurement and Asset Disposal Act, 2015.

4.1.3 Irregular Procurement of Advertising, Media and Branding Services

The figure also includes an amount of Kshs.757,941,035 for construction and civil works which in turn has a balance of Kshs.20,000,000 paid to a firm for advertising and media branding. Examination of the supporting documents revealed the following inconsistencies;

i. The Management resolved to use restricted tender for advertisement and media branding project in the month of March, 2019.

ii. Tender evaluation meeting held on 22 March, 2019 recommended the award for provision of destination branding, advertisement, and media agency services to a local company at a bid sum of Kshs.20,000,000 upon negotiation.

iii. On 18 April, 2019, the Management made a request for approval for use of restricted tender, the request was granted on 29 April, 2019, after the tender had already been evaluated and recommended for approval.

iv. Only one bidder was invited contrary to Regulation 54(3) of the Public Procurement and Disposal Regulations, 2006 that requires a minimum of at least ten (10) suppliers from the prequalified list for use of restricted tendering.

v. A total of twenty-six (26) suppliers and contractors were pre-qualified for public relations, advertising agency and media management services. However, the consultant who won the tender was not among the pre-qualified service providers contrary to Section 94 of the Act.

4.1.4 Irregular Procurement of Gravel

Also, under the acquisition of assets balance is an amount of Kshs.757,941,035 for construction and civil works which includes Kshs.4,812,500 that was spent on supply of 550 tonnes of gravel. However, Management awarded the contract through quotations method contrary to provisions of the Public Procurement and Asset Disposal Act, 2015 and section 59 of the Public Procurement and Disposal Regulations, 2006 which states that the maximum level of expenditure under this method is Kshs.2,000,000. A visit to the stores on 30 July, 2019 revealed that the gravel packs were not properly stored and most of the materials were wasting away.

4.1.5 Irregular Procurement of Consultancy Services

The balance also includes an amount of Kshs.225,495,174 spent on research studies, project preparation, design and supervision, out of which Kshs.49,102,379 was paid for preparation of valuation roll.

In March, 2017, the Management awarded a contract to a consultant firm for the preparation of a valuation roll at a contract sum of Kshs.99,040,000 with a contract period of one (1) year. On 28 August, 2018, a variation on the contract sum was requested and approved for Kshs.18,235,200. The variation represented 18% of the contract sum contrary to Section 139(4)(b) of the Public Procurement and Asset Disposal Act, 2015 which states that the quantity variation for goods and services shall be considered if it does not exceed 15% of the original contract quantity. On 7 August, 2019, a total of Kshs.78,560,000 had been paid with a balance of Kshs.62,495,200 still outstanding. The draft valuation report was yet to be tabled before the County Assembly for approval as at 30 June, 2019.

In view of the above observations, it is evident that the residents of the County have not received value for money on Kshs.78,560,000 spent since the inception of the project.

4.1.6 Irregular Procurement of Desk Top Computers

The balance also includes purchase of computers of Kshs.2,880,000. Examination of available supporting documents revealed that the Management awarded a company to supply sixteen (16) computers using requests for quotation method contrary to Section 59 of the Public Procurement and Disposal Regulations, 2006 which sets a maximum level of expenditure under this method at Kshs.2,000,000.

4.2 Use of Goods and Services - Irregular Procurement of Insurance for Motor Vehicles

As disclosed under Note 7 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.1,186,098,233 under use of goods and services which includes insurance costs of Kshs. 23,546,287. Scrutiny of supporting documents revealed that the Management awarded a contract of insurance for Kshs.2,654,289 to an un-prequalified supplier to cover motor vehicles and equipment. Further, the insurance policy document and contract were not provided for audit verification and the number of vehicles or equipment covered could not be established.

Consequently, the Management is in breach of the law.

5.0 Discriminatory Medical Scheme Cover by the National Hospital Insurance Fund

The statement of receipts and payments reflects compensation of employees' figure of Kshs.3,439,295,636 which includes an amount of Kshs.40,000,000 paid for medical insurance. Available records indicate that the amount was paid to National Hospital Insurance Fund (NHIF) for comprehensive medical cover for 2,572 employees. However, a review of the Human Resource records indicated that the County has 3,320 employees in place effectively leaving seven hundred and eight (748) employees not covered.

The medical scheme is therefore discriminatory and contrary to Section 46(2)(h) of the County Governments Act, 2012.

6.0 Unsupported Leasing of Medical Equipment

The statement of appropriation - recurrent and development combined reflects budgeted total revenue of Kshs.11,139,973,171 which included conditional allocation-leasing of medical equipment. According to Section 5(1)(e) of the County Allocation of Revenue Act, 2018, on conditional allocations on leasing of medical equipment as set out in Column F of the Second Schedule, an amount of Kshs.200,000,000 was included in the budget estimates according to the Intergovernmental Agreement in line with Article 187 of the Constitution. However, no Intergovernmental Agreement on leasing of medical equipment was provided for audit.

Consequently, Management is in breach of the law.

7.0 Failure to Remit Returned CRF Issues to County Revenue Fund

The statement of receipts and payments reflects a nil balance of returned CRF issues at the end of the financial year. However, examination of the opening balances of three (3) bank accounts showed that a total of Kshs.18,151,116 was retained and not remitted to the County Revenue Fund as required by law.

Consequently, the Management is in breach of Law

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

1.0 Poor Cash Management

The recurrent, development and deposit cash books were not properly maintained. A review of the cash books revealed the following anomalies;

i. The cash books were not balanced daily, weekly or monthly and as such there were no balances carried forward at the close of the month or brought forward at the beginning of the following month.

ii. The cash book were not checked and signed by a responsible officer to ensure that daily postings were correct, accurate and balanced. The cash books were not chronologically maintained such that the dates, especially in the recurrent cash book were mixed up. For instance, in September and October, 2018 payments were posted in November, 2018.

iii. The Management failed to appoint a board of survey to confirm and sign off the closing cash book balances as at the end of the financial year.

iv. Several pages in the cash books were skipped especially between the months therefore, lacking continuity and these resulted in unnecessary gaps in flow of information and reconciliations.

Consequently, Management has not instituted proper cash management structure to safeguard against cash mismanagement.

2.0 Lack of Audit Committee

The Management has not constituted an Audit Committee. With the absence of an Audit Committee, the Internal Audit Department has therefore, not been able to carry out its functions independently and effectively since internal audit reports have not been discussed by an Independent Audit Committee.

3.0 Inaccurate Fixed Assets Register

As disclosed under Annex 5 - the summary of fixed assets register reflects Kshs.1,251,085,528 as the total addition to assets during the year. However, in the year under review, the Management spent Kshs.2,526,071,309 on acquisition of assets. Management has not given an analysis of the classifications of the procured assets.

Consequently, the accuracy and reliability of the asset register cannot be confirmed.

4.0 Lack of Integration of Revenue Collection Systems

The Management has put in place different revenue collection systems namely, Riverbank Solution, e-Citizen, LAIFOMS, County Pro System and FUNSOFT. Some of revenue collected from the Agriculture Sector are paid through manual receipts. The revenue systems have also not been inter-faced for efficient and accurate reporting.

In the circumstances, it is not possible to determine the effectiveness of the controls in place to safeguard flow and custody of the revenue.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and those Charged with Governance

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

In preparing the financial statements, Management is responsible for assessing the County Executive's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to dissolve the County Executive or cease operations.

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

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

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the County Executive 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 overall 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 overall 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 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 applicable 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's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the County Executive to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the County 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.

Nancy Gathungu
<u>AUDITOR-GENERAL</u>

Nairobi

21 December, 2020