

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

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of County Executive Migori set out on pages 1 to 31, which comprise the statement of assets and liabilities as at 30 June 2018, and the statement of receipts and payments, statement of cash flows and summary statements of appropriation – recurrent, development and 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 do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

1.1. Limitation of Scope as a Result of Burnt Documents and Records

During the year under review, the County Executive Headquarters experienced an outbreak of fire on 24 September, 2017 which razed down the main procurements store and all the items stored therein. It was claimed that at the time of the fire outbreak the procurements store contained financial documents, tender documents, assortments of procured materials, equipment, furniture and stationery as detailed below:

Items	Number	Approximated Unit Cost Kshs.	Total Value Kshs.
Printers	28	63,000	1,764,000
Photocopiers	2	150,000	300,000
UPS 1.5 Va	60	28,000	1,680,000
Executive Chairs	37	35,000	1,295,000
Tonners	10	12,000	120,000
Executive Tables	39	70,000	2,730,000
Computers, Monitor and Desk top	2	50,000	100,000
White Boards	100	50,000	5,000,000
Stationaries	Assorted	-	23,000,000
Office cleaning materials	Assorted	-	2,000,000
Tourist furniture's		-	264,000
Used Tyres	200	-	5,000,000
Tender Documents		-	N/A

Items	Number	Approximated Unit Cost Kshs.	Total Value Kshs.
Work tickets		-	N/A
Banners		-	3,000,000
Payment Vouchers/Cheques Counter foils		-	N/A
Payments Cashbook		-	N/A
Bank statements and reconciliation files		-	N/A -
Total			46,253,000

Data analytics of the IFMIS records revealed that expenditure totalling Kshs.1,562,479,487 was incurred and paid from 1 July to 24 September 2017. However, the expenditure could not be vouched due to lack of relevant documents and financial records which allegedly got burnt during the fire outbreak leading to limitation of scope.

Further, the validity, completeness and accuracy of the total receipts of Kshs.7,252,577,570 and total payments of Kshs.7,792,047,812 reflected in the financial statements for the year ended 30 June, 2018 could not be confirmed in absence of the documents and records claimed to have been destroyed by fire.

Similarly, the existence, completeness and accuracy of the cash and cash equivalents balance of Kshs.330,395,105 and the fixed assets balance of Kshs.5,324,856,027 as at 30 June, 2018 as reflected in the financial statements could also not be confirmed under the circumstances.

2. County Own Generated Receipts

The statement of receipts and payments for the year ended 30 June 2018 reflects County Own Generated Receipts totalling Kshs.221,419,200. However, the following anomalies have been observed:

2.1. Failure to Account for Liquor License Administration Permits Collection

Analysis of Counter Receipts Books Register (CRBR) maintained at the central stores indicated that one hundred and eight liquor license permit books had been issued to Sub-County revenue clerks and a staff from the Department of Trade, Migori County Government but the same had not been returned. Further, examination of the liquor license permits revealed that a total of Kshs. 95,000 had been collected from one of the permits, however the bank statement for the same was not provided for audit review. Consequently, the accuracy of the total actual amount collected from Liquor License Administration Permits during the year under review could not be confirmed.

2.2. Revenue Collection at the Migori Level IV Hospital

Analysis of seven months' reports generated by the revenue system used for revenue collection at the Migori Level IV Hospital revealed unexplained and unreconciled variance of Kshs. 149,652.50 as illustrated below:

Month	Monthly Collection Summary	Per Cashier	Variance
	Per Revenue Item		
	Kshs	Kshs	Kshs
December 2017	986,847.30	1,006,917.30	(20,070.00)
January 2018	1,134,048.50	1,157,078.50	(23,030.00)
February 2018	1,134,048.50	1,138,001.00	(3,952.50)
March 2018	1,650,123.00	1,681,033.00	(30,910.00)
April 2018	1,267,144.00	1,285,584.00	(18,440.00)
May 2018	1,231,712.00	1,251,902.00	(20,190.00)
June 2018	1,474,610.00	1,507,670.00	(33,060.00)
Total	8,878,533.30	9,028,185.80	(149,652.50)

Consequently, the accuracy of the receipts could not be confirmed.

2.3. Revenue from Drugs Dispensed at Migori County Referral Hospital

Examination of revenue records maintained by the pharmacy department revealed that an amount of Kshs. 486,255 was charged for the drugs dispensed while the reports generated from the system indicated that an amount of Kshs. 195,634 was collected by the department, translating to a variance of Kshs. 290,621 for the month of May 2018. Consequently, the accuracy of the receipts could not be confirmed.

2.4. Rebates from National Hospital Insurance Fund

During the year under review, the Migori County Referral Hospital lodged claims amounting to Kshs.7,332,200 with the National Hospital Insurance Fund (NHIF) for services offered to the patients between July 2017 and June 2018 out of which an amount of Kshs.3,748,800 was received leaving a balance of Kshs.3,583,400. No explanation has been provided by the management for failure to receive the full amount claimed in the year under review.

3. Compensation of Employees

3.1. Basic Salaries of Employees

The statement of receipts and payments for the year ended 30 June ,2018 reflects compensation of employees' expenditure of Kshs.2,440,535,869 that comprised basic salaries to permanent employees of Kshs.2,339,727,814 and basic wages of temporary employees of Kshs.100,808,055 respectively. However, an analysis of schedules and vouchers used for payments vis-a-vis the Integrated Personnel and Payroll Data (IPPD) system payroll revealed that a total of

Kshs.2,287,461,266 was paid in respect of compensation of employees. The resulting difference of Kshs.153,074,872 was not reconciled or explained. Consequently, the accuracy and completeness of the expenditure for compensation of employees could be confirmed.

3.2. Increase in Compensation of Employees

A trend analysis revealed that the total expenditure on compensation of employees increased from Kshs.1,935,158,353 in 2016/2017 financial year to Kshs.2,440,535,869 in 2017/2018. However, the management has not provided justification for the increase in the expenditure by Kshs.505,377,516 in the year under review.

3.3. Payroll Data Analysis

Data analysis carried out to authenticate the accuracy and validity of payroll data revealed that sixty-seven employees who had attained the retirement age of sixty years were still appearing in the payroll as of 30 June 2018 and the County was incurring an expenditure of Kshs.5,511,975 as compensation costs in respect of these employees. Further, it was noted that six former staff who were dismissed for various reasons were yet to be removed from the payroll.

4. Use of Goods and Services

4.1. Domestic Travel and Subsistence

Included in the use of goods and services expenditure of Kshs.2,562,315,699 is an amount of Kshs.460,097,088 in respect of domestic travel and subsistence. The management did not provide imprests surrender documents including payment vouchers, warrants, and supporting documents for the months of July 2017, August 2017 and September 2017, as the documents were claimed to have been destroyed in a fire incident. Consequently, the validity, propriety, accuracy and completeness of the expenditure on domestic travel and subsistence could not be ascertained.

4.2. Hospitality Supplies and Services

Included in the use of goods and services expenditure of Kshs.2,562,315,699 is an amount of Kshs.355,444,697 in respect of hospitality supplies and services. Out of which payments totalling Kshs.11,827,150 were not supported. Consequently, the validity, propriety, accuracy and completeness of the expenditure on hospitality supplies and services could not be ascertained.

4.3. Utilities Supplies and Services

Included also in the use of goods and services expenditure of Kshs.2,562,315,699 is an amount of Kshs.49,870,504 relating to utilities supplies and services. The latter in turn includes payments totalling Kshs.13,907,663 for which the respective payment vouchers and supporting documents were not provided for audit review. Consequently, the validity, propriety, accuracy and completeness of the Kshs.13,907,663 expenditure could not be ascertained.

4.4. Routine Maintenance - Vehicles & Other Transport Equipment

Included in the use of goods and services expenditure of Kshs.2,562,315,699 is an amount of Kshs.117,359,782 in respect of routine maintenance vehicles and other transport equipment. Out of which payments totalling Kshs.24,652,938 were not supported. Consequently, the validity, propriety, accuracy and completeness of the Kshs.24,652,938 expenditure could not be ascertained.

4.5. Installation of Power to Health Facilities

Included in the use of goods and services expenditure of Kshs.2,562,315,699 is an amount of Kshs.452,428,604 in respect of specialized materials which in turn includes Kshs.14,500,000 paid to a contractor for supply and installation of power to various health facilities. However, certificate of completion, inspection and acceptance committee reports were not provided for audit review. Consequently, the propriety of the expenditure of Kshs.14,500,000 could not be ascertained.

4.6. Contracted Professional Services

Included in the use of goods and services expenditure of Kshs.2,562,315,699 are other operating expenses amounting to Kshs.261,384,178. The latter in turn includes Kshs.12,535,000 spent on contracted professional services for whose requisition for the services and procurement documents were not provided for audit review. Consequently, the validity of the expenditure on contracted professional services could not be ascertained.

5. Pending Bills

Disclosed in Annex 2 to the financial statements are pending bills totalling Kshs.282,283,029 which were outstanding as at 30 June 2018. However, the pending bills balance was not supported by authentic and verifiable source documents and schedules clearly indicating type of supply, contracted amount, amount paid to date and outstanding balance as at the year end. As a result, the validity, completeness and accuracy of the pending bills balance of Kshs.282,283,029 could not be confirmed.

6. Non-current Assets

Disclosed in Annex 5 to the financial statements are non-current assets acquired by the County Executive in 2017/2018 financial year of Kshs.1,896,796,747 and the brought forward balance of Kshs. 3,428,059,280 totalling Kshs.5,324,856,027. However, the County Executive did not maintain updated fixed assets register in the year under review. In addition, the Inter-Governmental Relations Technical Committee which took over from the Transition Authority is yet to formally hand over the assets and liabilities of the defunct local authorities to the County Government. Consequently, the existence and location of the non-current assets, and completeness and accuracy of the balance of Kshs.5,324,856,027 as at 30 June 2018 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

I do not express a conclusion on the lawfulness and effectiveness in the use of public resources as required by Article 229(6) of the Constitution. Because of the significance of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

Basis for Conclusion

1. Budget Performance

The County Executive did not enforce strict budgetary control and as a result various expenditure heads and items were overspent as summarized below:

Item	Final Budget Kshs.	Actual Expenditure Kshs.	Variance Kshs.
Own generated receipts	200,000,000	222,419,200	22,419,200
Compensation of employees	2,411,169,456	2,440,535,869	(29,366,413)
Use of goods and services	2,317,879,425	2,562,315,699	(244,436,274)
Transfer to Other Government Entities	736,791,732	746,694,407	(9,902,675)
Other grants and transfers	-	39,043,117	(39,043,117)
Social security benefits	64,000,000	106,661,973	(42,661,973)
Acquisition of assets	2,637,056,626	1,896,796,747	740,259,879

Further, the acquisition of assets expenditure head development budget was underutilized while the recurrent budget was overspent, an indication that the development funds were irregularly reallocated to recurrent vote. In addition expenditure under other grants and transfers is reflected as Kshs. 39,043,117 while the budget reflects nil amount.

2. Receipts

2.1. Own Generated Revenue

During the year under review, the County collected under Own Generated Revenue an amount of Kshs.222,419,200 against a supplementary budget of Kshs.200,000,000 (Original Budget – Kshs.450,000,000) which translate to 11% above the budget. In the preceding financial year, the County collected Kshs.350,334,347 against a budget of Kshs.400,000,000 which translate to a

collection of 88% of the budgeted amount. Had the original budget not been revised downwards, the County could not have attained the revenue target.

2.2. Automation of Revenue Collection

The County Government of Migori began the process of procurement of automation of revenue services in the financial year 2013/14 through tender number MC/49/2013-2014. However, on 15 January, 2016 customization, installation and implementation of revenue collection cash flows and funds requisition system were cancelled due to procurement irregularities. The supplier, felt aggrieved and appealed to the Public Procurement Administrative Review Board which ruled in her favour on 15 January, 2016. Review of the case during the year under review revealed that the matter is still pending in the Court of Appeal. Consequently, failure to automate revenue collection puts the process of improvement of revenue collection in doubts.

2.3. Single Business Permit

A review of the Counterfoil Receipt Book Register maintained by the County Treasury revealed that thirty-four Single Business Permit (SBP) receipt books issued to sub-county revenue clerks had not been returned to the main store.

An audit of sampled Single Business Permit receipt books issued to Kuria West Sub-County revealed that a total of Kshs.965,500 collected was not in recorded in the control sheets as detailed below:

No.	Serial Number	Receipt Control Sheets	Amount Controlled	Not Controlled
1	2151-2200	2911	10,000.00	20,500.00
2	2751-2800	2883	67,500.00	131,000.00
3	2851-2900	2762	1,500.00	82,000.00
4	2801-2850	Not provided	Not provided	181,500.00
5	2901-2950	2703	89,000.00	81,500.00
6	2951-3000	11196	172,000.00	330,000.00
7	3101-3150	2878	15,500.00	139,000.00
	Total		355,500.00	965,500.00

Further, the County Executive did not maintain in the year under review a data base of all the businesses operating within the eight sub-counties and a register of invoices issued to various business owners requesting for payment of business permits.

In view of the forgoing, the revenue collected could have been more had the management developed clear guidelines on SBP collection, business identification, use of invoices to demand payments and the preparation of a database of all the businesses in the County.

3. Procurement of Electrical Materials

Included in the acquisition of assets expenditure of Kshs.1,896,796,747 is an amount of Kshs.12,217,517 relating to purchase of household furniture and institutional equipment. The latter in turn includes a payment amounting to Kshs.11,809,290 made to a supplier for the supply and delivery of electrical materials. Physical verification in November, 2018 revealed that the electrical materials were still lying in the store increasing risk of wear and tear. Management did not provide explanation for failure to use the materials for the intended purposes. The County under the circumstances may not have achieved value for money in respect of the expenditure of Kshs.11,809,290.

4. Construction of FM Radio and Television Station

During the year under review, the County Government paid a sum of Kshs.17,615,890 to a contractor for the extra works on FM Radio and Television Station. The management did not provide for audit review licenses for the operationalization of the broadcasting from the industry regulator, Communication Commission of Kenya (CCK). Physical verification in November ,2018 revealed that the television and radio station were not operational. Consequently, the value for money may not be realized in the investment in absence of the authority to operate television and radio station from the regulator, Communication Commission of Kenya (CCK).

5. Construction of Roads

Included in the acquisition of assets expenditure of Kshs.1,896,796,747 is an amount of Kshs.1,041,940,580 relating to construction of roads. The latter in turn includes payments amounting to Kshs. 630,880,595 towards the maintenance of one hundred and fifteen roads which accounts for 61 % of the total expenditure for construction of roads.

A review of the maintenance expenditure and bills of quantities, and project verification revealed that much of the expenditure was incurred on gravel patching. However, maintenance of earth roads through gravel patching is expensive, as it requires regular maintenance services for the same roads annually, which is not sustainable in the long term.

6. Consultancies on Integrated Urban Development Plans

Included in the expenditure of acquisition of assets of Kshs.1,896,796,747 is an amount of Kshs.137,035,919 reflected under research, studies, project preparation, design and supervision. The amount relates to payments made to various consultants for integrated urban development planning for Sori, Isebania, Awendo and Rongo towns. The contracts were awarded on 16 June 2015, with contracts` period not exceeding eighteen months. The contracts` period has since expired and the plans have not been adopted by the county assembly for implementation. The value for money invested in the consultancies may not be achieved in the circumstances.

7. Supply, Installation and Integration of Structured Cabling in Health Facilities

Included in the acquisition of assets expenditure of Kshs.1,896,796,747 is an amount of Kshs.68,195,693 relating to purchase of ICT equipment, which in turn includes is Kshs.15,579,881 for supply, installation and integration of structured cabling for the County and Sub-County health facilities. Physical verification revealed the ICT equipment were under-utilized in the health facilities due to inadequate and unstable power supply. Consequently, the resident of Migori may realize value for money on the expenditure of Kshs.15,579,881 incurred on supply, installation and integration of structured cabling.

8. Irregular Recruitment of Staff

During the year under review, Migori County Public Service Board recruited new staff in various cadres without following the due recruitment process and in total disregard to budget provisions. Examination of recruitment process revealed the following anomalies:

- i. Migori County Public Service Board did not have an approved staff establishment in place.
- ii. The staff budget for recruitment for the year under review for various cadres was fifty-nine against the recruited four hundred twenty-one, leading to over-employment of three hundred and sixty-two people.
- iii. The County Government budgeted to recruit two hundred and ninety-four ECDE caregivers without an approved staff establishment. Eventually three hundred and three officers were employed thus exceeding the approved number by nine.
- iv. In the previous year the Migori County Public Service Board employed one hundred and forty-four nurses and against a budget of thirty. Further, in the same year the Board employed six hundred ECD teachers against a budget of two hundred and sixty-six leading over employment of two hundred and thirty-four.
- v. The County Public Service Board did not invite applications through advertisement for forty-one Clerical Officers, one Agricultural Mechanization Officer and one Fiscal Policy Analyst vacancies that were filled during the year under review.

The County Public Service Board therefore employed staff without following recruitment procedures contrary to the requirements of Section 66 of the County Government Act, 2012. As a result, the Board was in breach of the law.

9. Engagement of Temporary Workers

As disclosed in Note 6 to the financial statements, compensation of employees costs of Kshs.2,440,535,869 includes an amount of Kshs.100,808,054 in respect basic wages for casual employees. A review of the casuals' records revealed that the casuals were engaged for more than three months and as such the nature of their job did not qualify to be classified as urgent or short term as stated in the County Public Service Human Resource Manual 2013, Section B.16 (1).

Further, complete records for temporary workers engaged by various departments were not provided for audit review. As a result, the validity of the expenditure could not be confirmed.

10. Car Loan & Mortgage Scheme Fund

Information available indicates that the County Executive operates a Car Loan & Mortgage Scheme for the staff. However, the County Executive did not prepare and submit for audit financial statements of the Car Loan & Mortgage Scheme Fund for the year ended 30 June ,2018 contrary to the requirements of Section 167 of the Public Finance Management Act, 2012.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

I do not express a conclusion on the effectiveness of internal controls, risk management and governance as required by Section 7 (1) (a) of the Public Audit Act, 2015. Because of the significance of the matters described in the Basis for Conclusions on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

Basis for Conclusion

Cash Management Systems

During the year under review the County Executive of Migori maintained ten bank accounts at the Central Bank of Kenya and one hundred and eighty-seven bank accounts in various commercial banks. Most of the accounts maintained in the commercial banks were for health facilities. However, there were no effective internal checks including monthly reconciliations with regard to operations of these accounts.

The County Executive did not provide IFMIS auto generated bank reconciliations for the period under review.

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.

In preparing the financial statements, management is responsible for assessing the County Executive of Migori`s ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable

basis of accounting unless the management either intends 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 manner.

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

Auditor-General's Responsibilities for the Audit

My responsibility is to conduct an audit of the financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) 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. However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

In addition, my responsibility is 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. I also consider internal control, risk management and governance processes and systems in order to give an assurance on the effectiveness of internal controls, risk management and governance 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. However, because of the matters described under the Basis for Conclusions on Lawfulness and Effectiveness in Use of Public Resources, and Internal Controls, Risk Management and Governance sections of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

I am independent of the County Executive of Migori 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.



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

Nairobi

18 February 2019