REPORT OF THE AUDITOR-GENERAL ON COUNTY EXECUTIVE OF KISUMU FOR THE YEAR ENDED 30 JUNE, 2020

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 60, which comprise of the statement of assets and liabilities as at 30 June, 2020, 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, 2020, 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 County Governments Act, 2012 and the Public Finance Management Act, 2012.

Basis for an Adverse Opinion

1.1 Inaccuracies in the Financial Statements

The statement of receipts and payments reflects various receipts balances which are at variance with similar balances as per the IFMIS Miscellaneous Receipts Report (MRR), resulting to an unexplained net difference of Kshs.1,690,153,373 as shown below:

Receipts	Statements of Receipts & Payments Kshs.	IFMIS Report Kshs.	Difference Kshs.
Exchequer Releases	7,544,172,968	6,031,317,213	1,512,855,755
County Own Generated Receipts	811,076,124	987,654,256	(176,578,132)
Transfers from Other Government Entities	353,875,750	0	353,875,750
Total	**8,709,124,842**	**7,018,971,469**	

Further, the statement of receipts and payments reflects total receipts of Kshs.8,733,502,114. However, the Controller of Budget Implementation Review Report for 2019/2020 reflected actual total receipts balance as Kshs.10,218,772,532 resulting to an un-explained variance of Kshs.1,485,270,418 between the two reports.

In addition, the exchequer releases of Kshs.7,544,172,968 includes an amount of Kshs.102,790,158 for Universal Health Care and Agriculture Sector Development Support Project (ASDSP). However, the Management did not provide the disbursement schedule to support the balance.

In absence of any reconciliation, the accuracy of the financial statements cannot be confirmed.

2. Unsupported County Own Generated Receipts

As disclosed in Note 9 to the financial statements, the statement of receipts and payments reflects county own generated receipts of Kshs.811,076,124. The balance includes payroll revenue surcharge of Kshs.6,228,243 that was not supported with detailed schedules of employee deductions. Revenue totalling to Kshs.5,886,736 collected by Maseno – Agriculture Training Centre was not remitted to the County Revenue Fund (CRF) account as per the requirements of Section 80 and 81 of the Public Finance Management (County Governments) Regulations, 2015 which states that all revenue collected by the County Government should be remitted to the CRF. Further, out of the total collections of Kshs.5,886,736, it was noted that Kshs.4,328,198 was spent at source and no approval or documentation was provided during audit to support the expenditure.

In the circumstances, the accuracy of county own generated receipts amounting to Kshs.811,076,124 in the financial statements could not be confirmed.

3. Unreturned Funds to CRF

As disclosed in Note 10 to the financial statements, the statement of receipts and payments reflects returned County Revenue Fund, CRF issues of Kshs.24,377,272 which were transfers from the Development Recurrent accounts at the Central Bank of Kenya. However, the balance excludes imprest and operations accounts that were holding a total balance of Kshs.4,229,013 at the end of the previous year which had not been transferred to the CRF account. Further, the transfers of Kshs.24,377,272 were done on 7 August, 2019.

Consequently, the accuracy and completeness of receipts of Kshs.24,377,272 reflected as returned County Revenue Fund issues in the statement of receipts and payments for the year ended 30 June, 2020, could not be confirmed.

4. Compensation of Employees

As disclosed in Note 11 to the financial statements, the statement of receipts and payments reflects compensation of employees' balance of Kshs.4,261,475,456. The balance includes pensions and other social security contributions amounting to Kshs.41,286,470. However, supporting documents provided for review indicate a total of Kshs.235,536,988 as spent on pension and social contribution resulting to a variance of Kshs.194,250,518. Management has explained that the difference had been included in the basic salaries of permanent employees' balance. The mis-posting had not been corrected.

Further, the balance includes basic wages of temporary employees' balance of Kshs.129,674,986. However, payments amounting to Kshs.8,865,802 were not supported with payment vouchers, schedule of payees, approvals and support for work done.

In addition, the balance includes personal allowances paid as part of salary amounting to Kshs.1,594,196,492. However, review of documents indicates that the balance constitutes an amount of Kshs.16,402,366 paid to the County Public Service Board members as sitting allowances, travelling allowances, airtime and retainer allowances. However, Management did not avail supporting documents such as invitation letters, schedule or agenda of meetings as well as signed attendance sheets. The amount of Kshs.16,402,366 also includes Kshs.1,235,062 paid as honoraria to employees, the basis of which was not explained or supported.

Consequently, the accuracy, validity and completeness of the Kshs.4,261,475,456 spent as compensation of employees in the statement of receipts and payments for the year ended 30 June, 2020 could not be confirmed.

5. Use of Goods and Services

As disclosed in Note 12 to the financial statements, the statement of receipts and payments reflects use of goods and services of Kshs.995,424,701. The following observations were made:

5.1 Unsupported Payments

The balance includes several balances amounting to Kshs.10,135,479 that was not supported with relevant documents as tabulated below: -

No.	Item	Amount (Kshs.)	Supporting Documents not Availed
1	Fuel, Oil and Lubricants	3,638,239	Invoices, Work Tickets, Receipts or Payment Vouchers
2	Other Operating Expenses	2,828,440	Invoices, Payment Vouchers or Receipts
3	Routine Maintenance – Other Assets	2,000,000	No supporting documents
4	Routine Maintenance – Vehicles and Other Transport Equipment	1,668,800	Invoices, payment vouchers and receipts.
		10,135,479	

Management has not provided the supporting document to account for the above expenditure.

5.2 Irregular Insurance Costs

The balance includes an amount of Kshs.63,855,265 in respect of insurance costs. A review of the insurance records revealed the following issues:

i. Management did not provide policy documents, quotations and records to show how the service providers were sourced for payments totalling to Kshs.4,716,395.

ii. An insurance agent was engaged to facilitate covers for four (4) motor vehicles at a cost of Kshs.955,975 on 29 November, 2019. However, the certificate of insurance copy attached to the payment indicated that the cover's commencement date was 21 January, 2019 ten (10) months earlier.

iii. A Debit Note No.9875 for premium cover amounting Kshs.5,123,098 listed twenty-one (21) vehicles that were covered. However, only sixteen (16) vehicle insurance certificates were provided to support the payment. There was no evidence that the other five (5) vehicles were covered.

iv. A Debit Note No.9876 for premium cover amounting to Kshs.1,931,630 indicated that thirty-nine (39) vehicles were covered. However, three (3) of the vehicles were already included in an earlier Debit Note No.9875 above.

v. Debit Note No.9877 for Kshs.2,028,539 indicated insurance for various vehicles but there was no list of the vehicles for which the premium was paid.

vi. Six (6) debit notes with a cumulative premium value of Kshs.1,084,060 were not supported with copies of certificates of insurance.

5.3 Misclassification of Domestic Travel and Subsistence Expenses

The balance constitutes an amount of Kshs.168,085,892 in respect of domestic travel and subsistence which includes a payment of Kshs.641,439 to a travel agent for purchase of air tickets that was misclassified as domestic travel and subsistence.

5.4 Irregular Foreign Travel and Subsistence Expenses

In addition, the balance constitutes an amount of Kshs.31,181,771 in respect of foreign travel which includes a payment of Kshs.4,774,172 being shipping charges for a hyacinth harvester donated by the Indian Government on 19 May, 2020 which does not relate to foreign travel. Further, Management did not provide supporting documents showing how the service provider was sourced to undertake the clearing service and whether this cost had been factored in the budget and the procurement plan. The machine had also not been received at the time of payment.

Consequently, the accuracy, completeness and validity of the expenditure amounting to Kshs.995,424,701 under use of goods and services reflected in the statement of receipts and payments for the year ended 30 June, 2020 could not be confirmed.

6. Transfer to Other Government Units

As disclosed in Note 14 to the financial statements, the statement of receipts and payments reflects a balance of Kshs.1,775,555,843 in respect of transfer to other government entities. However, the following observations were made:

6.1 Misclassification of Expenditure

The balance includes payments to suppliers and contractors totalling Kshs.237,259,339 for various works, goods and services provided. It has been noted that the suppliers and contractors were not government agencies or entities established under the Public Finance Management County Government Regulations Sections 197(1) and 200(1) which set the guidelines for establishment of county funds and county corporations respectively. The payments should therefore have been classified as either use of goods and services or acquisition of assets as opposed to treating it as transfers to other government units.

In the circumstances, the financial statements are not fairly stated.

6.2 Unsupported Transfer to Vocational Training Institutions

The balance includes, under other current transfers, grants and subsidies, transfers to various vocational training centers amounting to Kshs.23,460,000. However, there were no acknowledgement letters from recipients or evidence for transfers of Kshs.18,760,000 to confirm that the institutions received the funds or expenditure returns to ensure that the funds were utilized as planned.

Consequently, the accuracy, validity and completeness of the expenditure amounting to Kshs.256,019,339 included in the transfers to other government units for the year ended 30 June, 2020 could not be confirmed.

7. Acquisition of Assets

As disclosed in Note 17 to the financial statements, the statement of receipts and payments reflects a balance of Kshs.1,116,320,347 under acquisition of assets. The following observations were made:

7.1 Unsupported Acquisition of Land

The balance includes an amount of Kshs.20,000,000 relating to acquisition of land. However, the balance differs significantly with the balance of Kshs.32,000,000 verified from other records provided for audit review by Kshs.12,000,000. From these records, the amount was paid for purchase of a thirty-four (34) hectares parcel of land for relocation of the Kachok dumpsite and thus an unexplained difference of Kshs.12,000,000 in the reported balance. Management is yet to obtain ownership documents such as title deed for the land and make use of the site for refuse disposal.

7.2 Irregular Off-setting of Expenditure

The balance includes a negative amount of Kshs.3,720,601 in respect of rehabilitation and renovation of plant, machinery and equipment which has been set-off in arriving at total value of Kshs.1,116,320,347. Management has not explained what the amount represented and the rationale of setting it off against the amount under acquisitions of the assets in the year under review.

7.3 Other Unsupported Expenditure

The balance also includes the following amount that were not supported:

No.	Item	Amount (Kshs.)	Documents Not Provided
1	Purchases of Trucks Under Purchase of Vehicles and Other Transport Equipment	32,250,000	Payment Vouchers, Procurement documents and other relevant records.

2	Purchase of a Photocopier, Computers and Other Equipment under Purchase of Office Furniture and General Equipment	631,000	Payment vouchers, Procurement documents and other relevant records.
3	Research Studies, Project Preparation and Design	4,074,929	Payment vouchers, Procurement documents and other relevant records
	Total	**36,955,929**	

7.4 Irregular Payment for Renovation of Deputy Governor's House

During the year under review, Management spent Kshs.5,000,000 for the renovation of the deputy governor's house. However, the Bills of Quantities were not signed, had no preparation date and tender reference numbers. The contract agreement did not disclose the contract timeframe and the contract amount.

Further, the works done under payment certificate number One (No. 1) dated 17 June, 2019 amounting to Kshs.5,000,000 was not supported by an inspection and acceptance report and letter of appointment of the inspection committee. There was no document provided to support certified works and hence it was difficult to confirm the extent of the works which were done while the tender advert, regret letters and other procurement documents were not availed for audit review.

Consequently, the accuracy, validity and completeness of Kshs.1,116,320,347 in respect of acquisition of assets reflected in the statements of receipts and payments for the year ended 30 June, 2020 could not be confirmed.

8. Cash and Cash Equivalents

As disclosed in Note 21A and 21B, the statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.1,890,874,366 which constitutes a bank balance of Kshs.1,890,819,766 and cash balances of Kshs.54,600. The following observations were made:

i) As listed in Note 21A to the financial statements, the balance includes bank balances of Kshs.1,890,819,766 which comprised of fifty-three (53) bank account balances . However, the cashbooks and bank reconciliations for twenty-four (24) of the bank accounts totalling to Kshs.260,758,079 were not provided for audit review.

ii) The balance includes two deposit account balances held in Co-operative Bank and Commercial Bank of Kenya with unpresented cheques amounting to Kshs.23,716,953 and Kshs.9,764,398 respectively, which were stale and had not been reversed in the respective cashbooks.

iii) The County Executive had sixteen (16) bank accounts which were dormant and had nil balances as per the bank statements as at 30 June, 2020 but no evidence was provided to explain why the Management continued to maintain the accounts which are not operational. Bank balance certificates for these bank accounts were also not availed for audit review.

iv) Cashbooks, bank reconciliations, board of survey and certificate of bank balances for eighty-three (83) bank accounts operated by the health facilities in the county were not provided for audit review and the account balances for these banks were not included in the financial statements.

v) Further, the bank balances in the following bank accounts held by the County Executive of Kisumu were not disclosed;

No.	Account Name	Bank
1.	Covid 19 response Kisumu County	SBM bank
2.	Jaramogi Oginga Odinga Teaching and Referral Hospital	KCB
3.	Jaramogi Oginga Odinga Teaching and Referral Hospital –Retention	KCB

vi) Payments in the bank but not yet recorded in the cashbooks amounted to Kshs.9,257,620 for Kisumu County Deposit account as per the bank reconciliation statement provided. There were no explanations on why the transactions were not posted to the cashbooks. The county did not also maintain a cheque register for tracking the movement of cheques issued.

vii) During the year under review, three bank accounts namely, Kenya Urban Support Program account, Kisumu Devolution Support Program account and Covid-19 Response account were opened but the letters of authorization to open the accounts were not submitted to the Office of the Auditor-General and Controller of Budget as stated in Regulation 82(5) of the Public Finance Management (County Governments) Regulations, 2015.

viii) The cash balances amounting to Kshs.54,600 as at 30 June, 2020 were held at four locations. However, no board of cash survey certificates were provided for audit review.

Consequently, the accuracy, validity, and completeness of cash and cash equivalents balance of Kshs.1,890,874,366 reflected in the statement of assets and liabilities as at 30 June, 2020 could not be confirmed.

9. Inaccuracies in the Statement of Cash Flows

The statement of cash flows reflects an increase in accounts receivables of Kshs.96,635,084 which differs significantly with the actual movement in accounts receivables of Kshs.668,515,761 which was a decrease from Kshs.783,346,771 as at 30 June, 2019 to Kshs.114,831,010 as at 30 June, 2020 as per the statement of assets and liabilities.

Consequently, the accuracy of the statement of cash flows could not be confirmed.

10. Unsupported Accounts Payables - Deposit and Retentions

The statement of assets and liabilities reflects accounts payables – deposits and retentions balance of Kshs.27,768,566. However, no schedule was provided for audit review to confirm the entities or firms that the amounts related to. It was not possible to confirm that the payments had been made after year end for projects that had been handed over and the retention period lapsed as there was no record of the same.

Consequently, the propriety, accuracy and completeness of the accounts payables – deposits and retentions balance of Kshs.27,768,566 as at 30 June, 2020 could not be confirmed.

11. Prior Year Adjustment

As disclosed in Note 25, and as reported in the previous year, the statement of assets and liabilities reflects a prior year adjustments of Kshs.645,737,153 (2018/2019: Kshs.842,611,821) debits which had not been supported with journal vouchers or explanations of the errors as stipulated in the reporting template and the International Public Sector Accounting Standards 3 - Accounting Policies, Changes in Accounting Estimates and Errors Para. 54.

Consequently, the accuracy, validity and completeness of prior year adjustments of Kshs.645,737,153 as at 30 June, 2020 could not be confirmed.

12. Irregular Purchase of a Bus

The Management entered into a contract with a motor dealer for the purchase and delivery of a twenty-nine (29) sitter bus at a cost of Kshs.4,915,000 which was paid in the year under review. However, a review of the procurement documents indicated that the tender was declared unresponsive by the evaluation committee on 4 April, 2019 and recommended for re-tendering. However, Management instead used a contract from the Supplies Branch to purchase the bus against the recommendation of the evaluation committee. The Supplies Branch contract relied on had also expired on 20 January, 2019. The notification of award was also dated 10 April, 2019 but the supplier accepted the offer on 20 June, 2019 two (2) months later.

Consequently, the propriety of Kshs.4,915,000 in respect of acquisition of assets reflected in the statements of receipts and payments for the year ended 30 June, 2020 could not be confirmed.

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

Emphasis of Matter

Pending Bills

Note 28(1) – other important disclosures on pending accounts payables indicates that the outstanding balance as at 30 June, 2020 was Kshs.2,309,494,252. However, review of pending bills revealed the following unsatisfactory matters:

i. The second approved supplementary budget for the financial year 2019/2020 had allocated a total of Kshs.1,473,800,116 for payment of pending bills. However, the list of the eligible pending bills and a report of the pending bills resolution committee were not provided for audit review.

ii. The year 2019/2020 list of pending bills reflected debts related to gratuity and medallion awards owed to various staff amounting to Kshs.278,268,393 but the dates of the medallion awards and gratuities were not indicated.

iii. Included in the actual list of pending bills as at 30 June, 2020 are claims amounting to Kshs.86,138,196 that are not adequately supported with either delivery notes, invoices and other procurement records.

iv. Included in the pending bills list are amounts totalling Kshs.5,163,723 for incomplete works as observed during the physical verification of projects.

v. From the records availed for audit, it was observed that invoices amount for certified works for construction of Kombewa market was Kshs.16,888,340. However, only Kshs.3,114,739 was included in the pending bills. The variance of Kshs.13,773,602 was not explained.

vi. During 2013-2014 financial year, the Ministry of Health (MOH) had paid salaries totalling Kshs.709,470,408 on behalf of all County Government of Kisumu which were to be recovered in the same financial year. However, Management had paid MOH an amount of Kshs.357,612,798 leaving an unpaid balance of Kshs.351,857,610. The amount had not been included in the pending bills as at 30 June, 2020.

vii. A pending bills resolution committee was formed and gazetted on 12 July, 2019. The process of recruitment of the chairman and how he was to be remunerated was not been explained.

Management has not explained how the pending bills will be settled

My opinion is however not modified based on the effects of the matters described above.

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 Budgetary Control and Performance

The summary statement of appropriation: recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.11,499,036,874 and Kshs.8,733,502,114 respectively resulting to an under-funding of Kshs.2,765,534 or 24% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.11,499,036,874 and Kshs.8,351,693,097 respectively, resulting to an under-funding of Kshs.3,147,343,777 or 27% of the budget. The expenditure was limited to the amount realised.

Management explained that the variances noted above were as a result of delays in the disbursement of funds from the National Government. The delay has the effect of denying the residents of Kisumu County the benefits accruing from the planned projects.

The underfunding and under-expenditure affected the planned activities and impacted adversely on service delivery to the residents of Kisumu County.

2.0 Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management has not resolved the issues nor given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular No. AG.4/16/3 Vol.1(9) dated 24 June, 2020.

REPORT ON 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 section of my report, I confirm that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Non-Compliance with Law on Ethnic Composition

An analysis of the June, 2020 payroll revealed that the County Executive had a total of 3,346 permanent and pensionable employees out of which 2,890 (86%) were from the dominant ethnic community in the county. This is contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which states that, "all public offices shall seek to represent the diversity of the people of Kenya in employment of staff and that no public institution shall have more than one third of its staff establishment from the same ethnic community".

In the circumstances, Management is in breach of the law.

2. Non-Compliance with Law on the Budget Process

The Management did not provide supporting documents for the County Executive budget for the financial year 2019/2020. There was no evidence provided to show that the County Budget Review and Outlook Paper (CBROP) and the debt policy document were submitted to the County Executive Committee for approval by 14 October, 2018, published and publicized by 30 October, 2018. Further, the budget policy statement and public participation process documents including invitation notices, attendance registers and minutes of the forums/meetings were not availed for audit review. This is contrary to the Public Finance Management Act, 2012 section 125 – 137, Section 87 of the County Governments Act 2012 and Section 21 – 28 of the Kisumu County Public Participation Act 2015.

The Management was therefore in breach of the law.

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

3.1 Irregular Procurement of High Roof Ambulances

The Management spent an amount of Kshs.28,438,500 for purchase of three (3) high roof ambulances. The tender evaluation committee minutes indicated that only one (1) bidder submitted the bid and was awarded the tender. This was contrary to Regulation 54(3) of the Public Procurement and Disposal Regulations, 2006 that requires minimum of at least ten (10) suppliers from prequalified list for use of restricted tendering. Even though the committee recommended negotiations with the bidder on the price, there is no evidence that this was done.

3.2 Procurement Plan and Lack of E-Procurement

The Management did not prepare the procurement plan in accordance with the Section 53 of the Public Procurement and Asset Disposal Act, 2015 which requires the plan to contain a description of the procuring items, unit Cost, estimated contract value, and the procurement method to be used. Further, bid documents for the year to suppliers were delivered manually instead of using the e-procurement as per the Presidential Executive Order on Procurement of Public Goods, Works and Services by Public Entities issued on 13 June, 2018 that required that from the 1 January, 2019, all public procurement will be undertaken through the electronic platform of the Integrated Financial Management Information System (IFMIS).

The Management was therefore in breach of the law.

4. Irregular Payment for Debt Collection Services

The Management made payments amounting to Kshs.38,050,660 to a debt collection consultant. However, review of the signed contract agreement revealed that the contract document had terms that reimbursable costs of Kshs.7,902,000 were charged to the County Executive yet they were not initially in the tender documents. These costs were also not supported with receipts and search reports for the reimbursements claimed. The invoices issued by consultant indicated the rates were exclusive of VAT but the contract stated that they were to be inclusive.

Further, for the digitized 17,408 plots as at 30 June, 2020 the consultant had billed and been paid a sum of Kshs.30,148,660. However, the signed contract agreement had specified the rate of Kshs.1,500 inclusive of VAT per plot, the cost would have been Kshs.26,112,000 thereby resulting in overpayment by Kshs.4,036,660.

Consequently, the value for money on the additional cost spent on the contract may not have been realized.

5. Compliance with the Kisumu County Covid-19 Emergency Fund Regulations, 2020

During the year under review, Management opened an independent account to receive and expense Covid-19 funds. However, the account operated at SBM Bank under the Covid-19 Response Kisumu County was opened before the Fund was enacted. The account opening instructions and approval by The National Treasury were not provided for audit review. It was therefore, not possible to confirm if the Fund account was opened as required by the Public Finance Management Act, 2012, the County Governments Regulations, 2015 section 82(1) and the Kisumu County Covid-19 Emergency Fund Regulations, 2020 which requires the County Government to open an independent account to receive and expense Covid-19 funds.

i) Further, the County received a total of Kshs.217,520,000 from the CRF account for utilization to fight COVID-19 pandemic which comprised of Kshs.159,820,000 from the National Government, Kshs.50,000,000 from County own funds and Kshs.7,700,000 grants from DANIDA. The County further received Kshs.400,000,000 from the National Government (Ministry of Health) which was transferred directly to Jaramogi Oginga Odinga Teaching and Referral Hospital. No funds had been utilized as at 30 June, 2020. No explanation was provided for the delay, given that it was meant for emergency response. The residents of Kisumu County had not benefited from the funds totalling Kshs.217,520,000.

ii) In addition, Management paid Kshs.4,447,600 to two (2) consultancy firms, under other operating expenses, for the development of strategic plans for two departments. The Management had invited bids under request for quotation from three (3) firms but two (2) were eliminated at the preliminary evaluation stage. The firms invited were not in the prequalified list of suppliers contrary to section 95 of the Public Procurement and Asset Disposal Act, 2015. The process was therefore, also non-competitive as only one (1) firm was evaluated on the technical and financial proposal. The reports were yet to be implemented as they have not yet been approved by the Executive for implementation.

iii) Management also paid an amount of Kshs.136,895,906 under emergency relief and refugee assistance, directly from the County Treasury. Further, a direct supply of Kshs.5,311,700 for blankets, masks, gumboots and gloves was made without supporting documents to justify the same. This is contrary to the Public Finance Management Act, 2012 Section 110 that states that a County Executive Committee may, with the approval of the County Assembly establish an emergency fund for the County Government.

Consequently, the Management was in breach of the law.

6. Non-compliance with the Law on Fiscal Responsibility-Wage Bill

During the year under review, the total compensation of employees amounted to Kshs.4,261,475,456 which is 49% of total receipts of Kshs.8,733,502,114 as reflected in the statements of receipts and payments. This contravenes section 25(1)(b) of the

Public Finance Management County Governments Regulations 2015 which states that compensation of employees should not exceed thirty-five (35%) percent of the County Government's total revenue for that year.

Consequently, the Management was in breach of the law.

7. Long Outstanding Imprests

The statement of assets and liabilities reflects accounts receivables – outstanding imprests of Kshs.114,831,010. However, there was no evidence that imprests had been surrendered or accounted for as at 30 June, 2020. Further, a sample of employees with outstanding imprest indicated that several employees were issued with multiple imprests before surrender of others previously issued to them. The above is contrary to Regulations 93(5) of the Public Finance Management County Governments Regulations 2015 that requires imprest be surrendered or accounted for within 7 working days after returning to duty station.

Consequently, the Management was in breach of the 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, because of the significance of the matters discussed in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance 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. Lack of Updated Fixed Assets Register

Annexure 5 – Summary of fixed assets register to the financial statements indicates a total assets cost of Kshs.5,074,776,975 as at 30 June, 2020. However, the County Executive did not have an up-to-dated consolidated fixed assets register as only three (3) departments namely; Department for Education, ICT & Human Resource Development, Department for Water and Sewerage Services and Department for Agriculture, Irrigation, Livestock and Fisheries had submitted their asset registers to the assets register consolidation committee that is charged with the responsibility of consolidating the assets owned by the County Executive. However, the register kept by the Department for Education did not include the construction of ECD facilities. In addition, the County Executive had not valued its parcels of land for complete recording in the register. In addition, assets previously held by the defunct local authorities had not been fully identified, secured and taken on charge.

Consequently, the ownership, accuracy and completeness of existing assets register could not be confirmed for the year ended 30 June, 2020

2. Weak Internal Audit Unit

During the year under review, the Internal Audit Unit had only four (4) technical officers casting doubt on the capacity of the officers to audit the fourteen (14) departments. Further, although the Audit Committee was formed on 17 May, 2018, there was no evidence that it held any meetings in the year.

In the circumstances, it has not been possible to confirm existence of an effective internal controls and governance mechanism of the operations.

3. Human Resource Matters

Review of the Human Resource Management records revealed that the County Executive did not have: -

i) An approved staff establishment, an annual recruitment plan and clear basis for transfers and promotions. In the circumstance, it is not known how and on what basis the County Public Service Board managed the recruitment of human resources.

ii) A training committee as provided in Section 9.6 of the County Public Service Human Resource Policy and Procedures Manual 2015, which states that a training committee will be established to continuously consider and review training needs from all the departments in order to ensure fairness, equity and relevance. The officer responsible for public service or his appointed designate will chair the committee while the head of the Human Resources Management will serve as the secretary.

iii) An integrated Human Resource Management Information System. As a result, reports relating to employees such as the employees hired, employee exits, and promotions made during the year could not be obtained. Further, the process, procedures and documentation for creating and removing employees in the payroll could not be confirmed.

In the circumstances, Management has not instituted effective mechanism in the management of Human Resource and ensure accurate and credible data which could be relied on in the decision-making process.

4. Lack of Reconciliation of Revenues

Review of revenue records revealed that the County Executive has been collecting local revenue from three main platforms namely:- E-Citizen platform used for trade licenses, public health and E- construction; LAIFOMS used in collection of building plans revenue, rent, land rates; and County Pro used in collection of business permit. It has been observed that the above systems are not integrated to enable easier and accurate reporting on revenue. It has not been possible to link the collections to the bankings as there were no unique identifier or proper reconciliations and consolidation statements generated for review.

Consequently, existence of efficient internal controls on revenue collections could not be confirmed.

5. Weak Application of Information Communication Technology (ICT)

Review of the County Information Communication Technologies, ICT platforms revealed that the County Executive did not have ICT steering and strategic committees and there was no formally approved ICT security policy to ensure data confidentiality, integrity and availability. The absence of an approved security policy indicates that there is no clear direction to maintain information security across the organization and to properly safeguard the organizations' assets.

Further, there was no approved ICT continuity plan or disaster recovery plan hence posing a risk of not recovering its normal operational data in case of loss. The entity also has no mechanism of storing system backed up data off-site neither does it implement an off-site storage for copies of relevant documents and no approved backup and retention strategy for storing system data and storing them off-site.

Therefore, with no system data backups existing and a disaster occurs, the county may not be able to continue services normally.

6. Weak Application of the Integrated Financial Management Information System (IFMIS)

Review of the IFMIS transactions and analysis of the local purchase orders (LPOs) posted in IFMIS showed that two LPOs/LSOs billed exceeded the commitment (estimated) cost by over 30%. This may be an indication of either poor market survey of goods/services procured or an entity issuing LPOs/LSOs regardless of the committed amount. The IFMIS control is also weak as it allowed excess billing.

Further, analysis of the LPOs/LSOs processed against the payments made revealed that there were 2,910 LPOs/LSOs for amounts totalling Kshs.2,997,380,035 that were paid for but the value of the goods/services was not captured in IFMIS while there were 2,745 LPOs/LSOs for a cumulative amount of Kshs.3,139,495,077 that were paid to vendors who had not been defined in IFMIS as at 30 June, 2020.

In addition, analysis of the vendors' list in IFMIS indicated that there were vendors who had different supplier numbers but similar vendor names but Management used both supplier numbers to process invoices and make payments to the vendors. There were ninety-two (92) payments to vendors for amounts totalling Kshs.234,591,399 whose invoices had not been captured in IFMIS. Further, analysis of the payment details report showed that there were (3) transactions amounting to Kshs.134,563,417 that were paid in cash as per the item description.

Consequently, it has not been possible to confirm the existence of effective utilisation of IFMIS functionalities and controls in the management of public resources.

7. Long Outstanding Rates Arrears

Examination of the LAIFOMS report revealed that land rates amounting to Kshs.1,037,779,036 were still in arrears as at 30 June, 2020. These have fallen due over the years and no efforts have been made to collect them.

In the circumstances, I am unable to confirm existence of effective debt collection mechanisms.

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 to 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.

CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

02 December, 2021