

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of County Executive of Siaya set out on pages 26 to 83, which comprise the statement of financial assets and liabilities as at 30 June, 2019 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 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, except for the effects of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the County Executive of Siaya as at 30 June, 2019 and of its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (Cash Basis), and comply with Public Finance Management Act, 2012 and the County Governments Act, 2012.

Basis for Qualified Opinion

1. Inaccuracies in Cash and Cash Equivalents

The statement of assets and liabilities reflects cash and cash equivalents of Kshs.1,778,581,900 which includes bank balances of Kshs.1,778,526,592 under Note 23 A. However, the following was noted:

- i. The bank reconciliation of the development bank account reflects a bank statement balance of Kshs.346,916,007 and cashbook balance of Kshs.1,807 with unrepresented cheques amounting to Kshs.346,914,200. However, the details of the dates and payee of the unrepresented cheques including the dates the amounts cleared from the bank were not provided for audit verification.
- ii. The bank reconciliation of the county recurrent bank account reflects a bank balance of Kshs.16,643,334 and cashbook balance of Kshs.1,573 with unrepresented cheques amounting to Kshs.16,641,761. However, the details of dates, amounts paid, nature of the payment and list of beneficiaries of the unrepresented cheques including dates and amounts cleared from the bank were not provided for audit verification.

- iii. The bank reconciliation for the county revenue fund account reflects bank balance of Kshs.784,126,312 against a certificate balance of Kshs.787,126,312 resulting to an unexplained and unreconciled variance of Kshs.3,000,000. The banks statement balance of Kshs.784,126,312 has also been reported as the cashbook balance even though the amount shown on the financial statements is Kshs.1,603,200,658 resulting in an unexplained and unreconciled variance of Kshs.819,074,346.
- iv. The bank reconciliation for the deposits bank account reflects a bank balance of Kshs.26,451,606 against a cashbook balance of Kshs.77,545,431. The difference of Kshs.51,093,825 attributed to uncredited receipts. However, details of the uncredited receipts amounts, date received, the date recorded in the cashbook and particulars about the amount were not provided for audit verification.

Consequently, the accuracy and completeness of the cash and cash equivalent balance of Kshs.1,778,581,900 for the year ended 30 June, 2019 cannot be ascertained.

2. Inaccurate statement of Summary Statement of Appropriation: Recurrent and Development Combined

The summary statement of appropriation: recurrent and development combined reflects total payments adjustments from original budget to final budget of Kshs.100,000,000. However, a casting error of Kshs.1,400,511,471 was noted resulting to adjustments of Kshs.1,500,511,471. Further, analysis of the summary statement of appropriation: development reflects total payments adjustment from original to final budget of Kshs.1,240,522,039. However, a casting error of Kshs.29,782,460 was noted resulting to adjustments of Kshs.1,270,304,499.

In addition, the summary statement of appropriation: recurrent reflects total actual payments of Kshs.4,886,321,232.52 while summary statement of appropriation: development reflects total actual payments of Kshs.1,675,901,462 resulting to actual payments of Kshs.6,562,222,694.52 which differs with the total actual payments of Kshs.6,343,810,834 shown in the summary statement of appropriation: recurrent and development combined.

The resultant variance of Kshs.218,411,860.52 has not been reconciled or explained.

3. Unexplained Balance of Accounts Payables

The statement of financial assets and liabilities and as reported under Note 25 to the financial statements reflects accounts payables amounting to Kshs.77,545,432 made up of 10% retention and 5% Project Management Committee (PMC) fees. However, the bank statements of County Government Deposit Account provided for audit reflected an amount of Kshs.26,451,606 as at 30 June, 2019 resulting to a difference of Kshs.51,093,826 which was not reconciled or explained.

Consequently, the accuracy and validity of the accounts payable figure of Kshs.77,545,432 cannot be confirmed.

4. Unexplained Adjustments and Suspense Account

The financial statements submitted for audit on 30 September, 2019 were revised and a second set submitted on 8 May, 2020. However, the movement between the two sets of financial statements have not been supported by fully explained adjustment journals.

Account Name	Unexplained Movement (Kshs.)
Cash and Cash equivalents	15,605,347
Domestic travel	25,799,100
Training	1,361,479

In addition, two adjustments submitted in support of the movement between the set of financial statement clearly indicates that the financial statements have a credit suspense account of Kshs.24,437,621. The details of how the suspense account has been treated in the financial statements were not provided for audit.

Under the circumstances, the accuracy and completeness of the financial statement for the financial year ended 30 June, 2019 cannot be confirmed.

5. Inaccuracies in Receipts

5.1 Unsupported Exchequer Releases

The statement of receipts and payments under Note 1 to the financial statements reflects exchequer releases of Kshs.6,028,800,000. However, the supporting documents provided indicates an amount of Kshs.5,064,192,000 resulting to an unreconciled and unexplained difference of Kshs.964,608,000.

Consequently, the accuracy and completeness of the Exchequer releases of Kshs.6,028,800,000 for the year ended 30 June, 2019 cannot be confirmed.

5.2 Inaccurate Transfers from other Government Entities

The statement of receipts and payments under Note 2 of the financial statements reflects transfers from other Government entities of Kshs.54,293,228 which includes an amount of Kshs.29,067,500 for Youth Polytechnic grant and Kshs.18,194,808 in respect of user fee forgone. However, the Youth Polytechnic Bank account had receipts amounting to Kshs.69,714,630 during the year under review resulting to an unexplained variance of Kshs.40,647,130 while there was no evidence provided in support of user fees forgone of Kshs.18,194,808.

Under the circumstance, the accuracy of transfers from other Government entities figure of Kshs.54,293,228 for the year ended 30 June, 2019 cannot be confirmed.

5.3 Inaccurate Fuel Levy Allocation Receipts

The statement of receipts and payments and Note 9 to the financial statements reflects fuel levy allocation of Kshs.158,733,050. However, the supporting schedule and bank statements provided for audit indicates a figure of Kshs.193,228,537 resulting to an unexplained and unreconciled difference of Kshs.34,495,487. Also, the fuel levy allocation is indicated to have made payments amounting to Kshs.127,156,137 while payment summary provided indicated a total of Kshs.131,342,856 resulting in an unexplained variance of Kshs.4,186,719.

Further, the closing cash balance of Kshs.66,072,399 could not be reconciled to the expected cash balance of Kshs.61,885,683 arising out of documented total receipts of Kshs.193,228,537 against total payments of Kshs.131,342,856.

Consequently, the accuracy of fuel levy allocation receipts of Kshs.158,733,050 as detailed on Note 9 of the financial statements and the accuracy of fuel levy fund bank account balance of Kshs.66,072,399 as at 30 June, 2019 could not be confirmed.

5.4 Inaccurate Own Generated Revenue

The statement of receipts and payments reflects county own generated revenue of Kshs.184,622,377. However, Note 10 to the financial statements indicates two revenue streams; various revenue fees and other receipts not classified elsewhere amounting to Kshs.402,859 and Kshs.8,553,856 respectively which differs with the summary schedules provided for audit amounting to Kshs.57,295 and Kshs.7,781,455 respectively. The resultant differences of Kshs.345,564 and Kshs.772,401 for various revenue fees and other receipts has not been explained.

Consequently, the accuracy and completeness of the Own Generated Revenue of Kshs.184,622,377 cannot be confirmed.

5.5 Overstatement of Proceeds from Foreign Grants/Development Partners

The statement of receipts and payments and as reported under Note 3 to the financial statement reflects proceeds from foreign grants/development partners of Kshs.291,473,251 which in turn includes Urban Support Programme (USP) figure of Kshs.41,200,000. However, supporting evidence provided for audit showed that the amount was received by 3 July, 2019 and as such cut-off time was not observed resulting to overstating of the proceeds from foreign grants/development partners by the same amount.

Consequently, the accuracy and validity of the proceeds from foreign grants/development partners figure of Kshs.41,200,000 cannot be confirmed.

6. Unsupported Expenditure

6.1 Use of Goods and Services

The statement of receipts and payments under Note 13 to the financial statements reflects use of goods and services expenditure of Kshs.1,447,254,978 which includes various expenditure of Kshs.1,222,053,293 out of which payments of Kshs.336,003,036 on various items were not properly supported.

Consequently, the accuracy, completeness and legality of the use of goods and services expenditure of Kshs.1,447,254,978 could not be confirmed.

6.2 Other Grants and Transfers

The statement of receipts and payments under Note 17 to the financial statements reflects other grants and transfers of Kshs.112,500,000 in relation to scholarships and other educational benefits while receipts on the bursary fund accounts was Kshs.148,895,780. resulting to a difference of Kshs.36,395,780 which was not supported.

Consequently, the accuracy and completeness of Other Grants and Transfers of Kshs.112,500,000 could not be confirmed.

6.3 Other Current Transfers, Grants and Subsidies

The statement of receipts and payments under Note 16 to the financial statements reflects transfer to other government entities of Kshs.868,910,151 which includes Other Current Transfers, Grants and Subsidies of Kshs.165,023,773 which was not supported.

Consequently, the accuracy and completeness of the transfer to other Government entities of Kshs.868,910,151 could not be confirmed.

6.4 Purchase of Certified Seeds, Breeding Stock and Live Animals

The statement of receipts and payments under Note 19 to the financial statements reflects acquisition of assets expenditure of Kshs.1,539,932,328 which includes purchase of certified seeds, breeding stock and live animals of Kshs.74,559,128 out of which a schedule supporting only Kshs.2,360,000 was provided for audit. The resultant difference of Kshs.72,199,128 was not supported.

Consequently, the accuracy and completeness of purchase of certified seeds, breeding stock and live animals of Kshs.74,559,128 could not be confirmed.

6.5 Unsupported Compensation of Employees' Payments

The statement of receipts and payments under note 12 to the financial statements reflects compensation of employees' figure of Kshs.2,372,581,377 which includes salary arrears of Kshs.24,578,044 for the months of May and June, 2018. However, the payments of the arrears have not been supported by the payroll and ledgers summaries. The pending salaries for the month of May and June, 2018 were also not reported in the previous financial year as at 30 June, 2018.

Further, the compensation of employees figure also includes an amount of Kshs.264,419,166 for basic wages of temporary employees out of which an expenditure of Kshs.6,605,945 in regard to casuals from the Departments of Health, Agriculture Training College (ATC) and Trade was paid outside the county payroll.

Consequently, the accuracy and validity of the Kshs.2,372,581,377 payment on compensation of employees could not be confirmed.

6.6 Unaccounted for Expenditure Under Donor Funds

The statement of receipts and payments and as reported under Note 3 reflects total receipts figure of Kshs.6,717,921,906. This includes proceeds from foreign grants/development partners of Kshs.291,473,251 which in turn includes the Kenya Devolution Support Programme (KDSP) amount of Kshs.103,582,093. The supporting documents in support of the difference of Kshs.72,661,140 were not availed for audit verification.

Consequently, the accuracy and completeness of the expenditure of Kshs.72,661,140 in respect of utilization of donor funds cannot be confirmed.

6.7 Overstatement of Training Expenses

The statement of receipts and payments and as reported under Note 13 to the financial statements reflects use of goods and services expenditure of Kshs.1,447,254,978 which includes training expenses of Kshs.108,649,586. However, the ledger schedule provided shows a balance of Kshs.106,224,786 resulting to overstatement of the training expenses figure by Kshs.2,424,800.

7. Unsupported and Unreconciled Pending Bills

Other important disclosures to the financial statements and as reported under Annex 27.1 reflects pending accounts payables of Kshs.386,787,728 which includes pending bills totalling Kshs.104,127,648 that were not supported with documentary evidence. Further, the reported pending bills figure of Kshs.386,787,728 differed with the Controller of Budget's report balance of Kshs.392,999,940 million as at 30 June, 2019 resulting to unexplained and unreconciled difference of Kshs.6,212,212.

Consequently, the accuracy and validity of the pending bills balance of Kshs.386,787,728 for the year ended 30 June, 2019 could not be confirmed.

8. Irregular Expenses Lake Region Economic Bloc (LREB)

The statement of receipts and payments under Note 16 to the financial statement reflects transfer to other government entities of Kshs.868,910,151 which includes Lake Region Economic Bloc (LREB) amounting to Kshs.1,000,000. However, there was no authority provided as basis for the payment.

Consequently, the authenticity of the payment to the Lake Region Economic Bloc (LREB) amounting to Kshs.1,000,000 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 Siaya 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 appropriately to provide a basis for my qualified opinion.

Emphasis of Matter

1. Budget Control and Performance

The statement of comparative budget and actual amounts for the year ended 30 June, 2019 reflects actual receipts of Kshs.6,717,921,909 against final receipts budget of Kshs.7,198,102,787 resulting in a shortfall of Kshs.480,180,878 or 7% of the approved budget. The drastic fall was in respect of a decrease in the transfers from national government entities by 79 %, proceeds from foreign grants/development partners by 32% and own generated revenue by 43%. Further, actual expenditure for the year amounted to Kshs.6,343,810,834 against the final expenditure budget of Kshs.7,198,102,787 resulting to over expenditure of Kshs.29,293,115 or 21% of the approved budget. Management attributed the over expenditure to funding of activities through the accumulated funds.

2. Under Collection of Own Generated Revenue

During the year under review, the County's approved revenue budget estimates was Kshs.325,000,000. The statement of receipts and payments and as disclosed under Note 11 to the financial statement reflects County Own Generated Revenue of Kshs.184,622,377 resulting to a deficit of Kshs.140,377,623. However, the revenue stream list provided had material variances between the budgeted amounts and the actual collections. Analysis of the budgeted revenue collection against actual revenue collection report revealed that there was under collection in nineteen (19) revenue

streams out of twenty-five (25) with seven streams collecting less than 20% of the budgeted amounts.

Further, analysis of the revenue report revealed that there were fifteen (15) revenue streams which were not budgeted for and were not in the Finance Bill. However, the County Government collected revenue amounting to Kshs.17,673,503 from these sources.

In addition, it was noted that three (3) revenue streams namely: Boda Boda fees, CILOR and Slaughter fees reported Nil collections against the budgeted figures approved by the County Assembly of Kshs.8,725,000, Kshs.51,165 and Kshs.1,210,275 respectively.

It's not clear what measures were put in place to ensure budgeted amounts on own generated revenue collection was achieved. Consequently, the under collection of own generated revenue may have led to poor service delivery due to cash flow problems.

My opinion is not modified in respect of this matter.

Key Audit Matter

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

Other Matter

Previous 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, although the Management has indicated that the issues have been responded to, the matters have remained unresolved as the Senate is yet to deliberate on the issues.

REPORT ON COMPLIANCE WITH LAWFULNESS AND EFFECTIVENESS USE OF PUBLIC MONEY

Conclusion

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

Basis for Conclusion

1. Outstanding Imprest

The statement of assets and liabilities under Note 24 to the financial statements reflects outstanding imprest amount of Kshs.19,030,894. However, analysis of the outstanding imprest as at 30 June, 2019 indicated that there were employees holding multiple imprests amounting to Kshs.9,077,033. Further, the imprest ageing schedule was not provided for audit hence it was not possible to ascertain the period the imprest had taken before surrender or recovery. This is, contrary to section 93(5) of the Public Finance Management (County Governments) Regulations, 2015 which states that a holder of a temporary imprest shall account or surrender the imprest within 7 working days after returning to duty station.

Consequently, the Management is in breach of the law.

2. Failure to Maintain Project Files Public Works, Roads, Energy and Transport

During the year under review, analysis of IFMIS payments details to contractors totalling Kshs.50,415,820 showed that the Department of Public Works, Roads, Energy and Transport did not maintain accurate and complete files for a number of projects undertaken during the year. Such files should have all documents pertaining to every project including the procurement process, LPOs/LSOs, minutes of meetings, certificates and any other document relevant to the project. In the absence of accurate project files, it was not possible to accurately vouch the expenditure and carry out physical verification of the road projects. This is contrary to Section 68(1) of the Public Procurement and Asset Disposal Act, 2015 which stipulate that an Accounting Officer of a procuring entity shall keep records for each procurement for at least six years after the resulting contract has been completed or, if no contract resulted from the procurement, procuring entity shall keep records for each procurement for at least six years after the procurement proceedings were terminated.

Consequently, Management was in breach of law.

3. Unspent Appropriated and Donor Funds

The statement of receipts and payments and as disclosed under Note 3 to the financial statements reflects proceeds from grants/development partners of Kshs.291,473,251 which includes World bank grant of Kshs.50,000,000 under Kenya Urban Support Program (KUSP). However, the Department of Housing and Urban Development has

not utilized the fund during the year denying the targeted group the opportunity to benefit from the grants.

4. Failure to Provide Breakdown Analysis of Work Done at the Stadium

Examination of payment vouchers provided for audit indicated that the County Executive paid a total of Kshs.83,303,488 for the construction of Siaya Stadium. However, analysis of project interim certificate (PIC) number 3 reflected payment of Kshs.18,610,735 which was supported by a summary sheet dated 31 May, 2019. Hence, it was difficult to quantify amounts paid against the substructure fee. Also, the project had a contract duration of 44 weeks and was to be completed by 22 November, 2019. As at the date of the audit, the project was 50% complete. No explanation has been provided for the slow pace of the project completion.

5. Compensation to Employees

5.1 Irregular Payment of Allowances

Review of compensation of employees revealed that the County Executive made payments of special house allowance of Kshs.9,653,117, special salary of Kshs.233,117, alimentary allowance of Kshs.6,167,000, health service allowance Kshs.59,652,224 and health workers allowance of Kshs.189,920,402 without approval by the Salaries and Remuneration Commission.

Consequently, the County Executive was in breach of the law.

5.2 Violation of the One Third of the Basic Salary Rule

During the year under review, analysis of the payrolls of the County Executive of Siaya indicated that fifty-seven (57) employees were earning below one third of the basic salaries contrary to Section C of the Public Service Commission Human Resource Policies of May, 2016 which provides that public officers shall not over-commit their salaries beyond two thirds (2/3) of their basic salaries and Heads of Human Resource Units should ensure compliance.

Consequently, Management was in breach of the law.

5.3 Over Recruitment

Analysis of the Siaya County Public Service Board report on recruitment and selection of staff showed that the Board recruitment is based on request from respective sectors/departments of the County. During the year under review, the Board recruited 14 employees over and above the positions requested by the user departments as shown below;

Recruited Staff in 2018-2019	Department	Number Requested	Number Recruited	Variance
Ward Administrator	Governance and Administration	5	6	1
Senior Clerical Officer	Governance and Administration	1	2	1
Legal Officer	Governance and Administration	1	2	1
Registered Nurse	Health and Sanitation	18	20	2
Pharmaceutical Technologist	Health and Sanitation	3	4	1
Clinical Officers	Health and Sanitation	8	11	3
Assistant Public Health Officer	Health and Sanitation	5	6	1
Assistance Community Health Officer	Health and Sanitation	3	7	4
			Total	14

This was also not in line with the authorised establishment by the Board.

Consequently, the County Public Service Board is in breach of the law.

6. Maintenance of Point of Sales Machines

The County Executive procured a revenue management collection system together with point of sales machines (POS) in July, 2015 at a cost of Kshs.24,545,600. The asset register indicated that there were one hundred and fifty (150) points of sales machines out of which thirty-six (36) are faulty and could not be used for revenue collection. It was not clear why maintenance was not being done on the machines by the vendor in spite of the contract providing for the same.

Consequently, loss of revenue may occur due to inadequate point of sales machines and the County Executive may not get value for money on the acquisition of the system.

7. Payment for Services not Rendered

During the year under review, the Department of Roads awarded contracts for two roads, Okela Kogonga Beach Road at a cost of Kshs.4,994,640 for 8km and Kogado Kolo Beach Road at a cost of Kshs.4,945,393 for 3Km. However, physical verification revealed that the contractor had been paid Kshs.4,994,640 on 6 May, 2019 for the opening, grading, graveling and culverting of Okela Kogonga Beach Road in North Uyoma. However, only 6.6km of the 8 kilometres was done on the Okela Kogonga Beach Road. Also, the contractor was awarded a contract to grade and gravel 3km of the Kogado Kolo Beach Road at a cost of Kshs.4,945,393 but only did 1.8km thereby leaving 1.2km undone. This was despite payment of the full contract amount.

Consequently, the residents of Siaya County have not obtained value for money on the two road projects that remained incomplete.

8. Irregular Award of Renovation Contract to the Finance Department

The County Executive invited quotations for renovation works at the Finance Department. Three bids were received and evaluated. However, two bidders did not meet the mandatory requirements, thus the only responsive bid submitted was evaluated and awarded at a contract sum of Kshs.2,748,925. The notification of award was dated 15 August, 2018 while the letters appointing the Tender Opening and the Tender Evaluation Committee members were dated 30 August, 2018 being fifteen days after the tender award notification.

Consequently, Management was in breach of the law.

9. Incomplete Project Works

Review of projects implemented during the year revealed that there were various projects that were incomplete. These included the following:

- i. The County Executive through the Department of Water, Environment and Natural Resources awarded contracts for drilling and equipping of Bugni borehole at Kshs.4,485,036.80, maintenance of Lake Kanyaboli Dykes at Kshs.32,150,966, desilting of Kogola and Nyamware water pans at Kshs.1,997,950.50 and for desilting of Koderia Miya water pan at Kshs.2,505,248. However, three 10m³ PVC tank at the Bugni Borehole in North Sakwa were not installed contrary to the Inspection and Acceptance report.

Also, there were major cracks on the submersible water pump chamber indicating poor workmanship. Further, there were visible potholes on the road with part of the road that was graveled alongside the shores being eroded. In addition, the culvert and drainage were poorly done and not functional.

It was also noted that the silt trap at the Kogola Water Pan was not done as per the specifications. The Water Pan was also already dry and not benefiting the community as intended. Also, the water pan at Nyamware Water Pan desilted halfway contrary to the Bills of Quantity. The remaining half is filled with vegetation. Also, the silt trap, spillway and signboard had not been constructed as at the time of the audit.

- ii. The County Executive through the Department of Tourism, Sports and Culture engaged a contractor for the renovation of Odera Akongo Cells at a contract sum of Kshs.3,999,924. The first payment to the contractor was Kshs.2,045,942 done on 21 June, 2019, However, the expenditure should have been reflected as pending bill and budgeted for. Physical verification revealed the site was abandoned and full of weeds. As at the time of the audit, the concrete works, walling structures, and floor finishings had not been completed and the contractor was not on site.

- iii. The County Executive through the Department of Trade and Enterprise Development undertook several development projects in respect of construction of market shed, drainage systems of markets, fencing of cattle ring, construction of pit latrines and construction of boda boda sheds at a cost of Kshs.10,644,165 during the year 2018/2019. However, physical verification of the projects revealed that they are not complete and not in use.
- iv. Physical verification of the Ministry of Education projects in respect to Construction of Early Child Development (ECD) blocks amounting to Kshs.15,098,489 revealed that there were delays in contract executions, payments for work not done and value for money was not achieved as they are not in use. This is contrary to Section 150(1) and (2) of the Public Procurement and Asset Disposal Act, 2015.

Consequently, the residents may not have received value for money on the works done.

10. Irregular Contract Awards – Department of Education

The County Government entered into thirteen (13) contracts under the Ministry of Education. The contracts entered into were not signed by the Accounting Officers contrary to Section 135 of Public Procurement and Asset Disposal Act, 2015 which provides for signing of the contract by the Accounting Officer.

Consequently, Management was in breach of the law.

11. Irregular Deductions of 5% on Project Management Committee

The County Executive deducted 5% Project Management Committees fees from projects. The deductions of Kshs.3,617,472 and Kshs.4,578,672 were not based on contract agreement entered into with the Department of Tourism, Art, Culture and Sport and the Department of Water, Environment and Natural Resources respectively.

Consequently, it was difficult to establish how the deductions were made.

12. Projects not in the Procurement Plan - Department of Education

Review of the annual procurement plan provided by the Ministry of Education, Youth Affairs, Gender and Social Services revealed that projects in respect of construction of an ECD block, consultancy services, supply of office stationary and supply and delivery of tyres totaling Kshs.20,339,387 were not included in the annual procurement plan. This was Sections 45(3) and 53(2) of the Public Procurement and Asset Disposal Act, 2015. which provides that an Accounting Officer shall prepare an annual procurement plan which is realistic in a format set out in the regulations within the approved budget prior to commencement of each financial year as part of the annual budget preparation process.

Consequently, Management is in breach of the law.

13. Insurance of GK Motor Vehicles

During the year under review, the County awarded an Insurance Company contract for insurance of motor vehicles at a contract sum of Kshs.8,976,233 through open tender. Review of the contract agreement revealed that the County Executive insured GK Vehicles owned by the National Government. This is contrary to Section 196(3) which states that a public officer shall not enter into any obligation that has financial implications for the National Government budget or a County Government budget unless the obligation is authorized by the Constitution, an Act of Parliament or an Act of a County Assembly.

Consequently, the legality of the insurance of the vehicles could not be confirmed.

14. Irregularities at the Bondo Sub-County Hospital

14.1 Unauthorized Expenditure

During the year under review, Bondo Sub-County Hospital awarded a contract at a contract sum of Kshs.2,090,320 for borehole drilling. The Hospital made the first payment of Kshs.1,045,160 on 20 November, 2018 for works without inspection and acceptance report. Further, the second payment made on 20 December, 2018 for Kshs.912,144 had not been authorized by the Accounting Officer and there were no payment certificates, or Project Management Committee minutes approving the payment. This is contrary to section 150(1) and (2) of Public Procurement and Asset Disposal Act, 2015.

Consequently, the legality of the expenditure of Kshs.2,090,320 could not be confirmed.

14.2 Renovations and Maintenance

The County Executive entered into a number of contracts which had the following irregularities: -

- i. The hospital commissioned drilling of a borehole without the approval from the Water Resource Authority. This was contrary to section 16(2)(1) of Water Act, 2016 which stipulates that a person shall not construct or begin to construct a borehole or well without having first given the authority notice of his or her intention to do so.
- ii. The certificate of completion was not availed for audit.
- iii. The County Executive did not appoint an ad hoc Procurement Committee for the contract on renovation of the hospital kitchen.
- iv. Part of the maternity wing was not in use.
- v. The walls had cracks and the windows were not properly done as they could not close properly.
- vi. The windows and door glasses were broken.

- vii. The draining system at the theatre was not complete as the floor trap was not complete.
- viii. The roof to the theatre was leaking.

Consequently, it was difficult to establish whether the residents received value for money on the expenditure incurred on renovations and maintenance of the Bondo Sub-District Hospital.

14.3 Use of Revenue at Source

During the year under review, it was observed that the Bondo Sub-County Hospital Management did not bank daily collections intact. This was contrary to Section 63(4) of the Public Finance Management (County Governments) Regulation, 2015, which stipulates that all public moneys collected by a receiver of revenue or collector of revenue or collected and retained by a County Government entity, shall be paid into the designated bank accounts of the County Government and shall not be used by any public officer in any manner between the time of their receipts and payments into the bank except as provided by law.

Consequently, 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 INTERNAL CONTROLS EFFECTIVENESS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections 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. Lack of Updated Fixed Assets Register

The County Executive did not maintain an updated assets' register detailing the asset that make up the reported amount. Therefore, it was not possible to ascertain the

nature, number of assets, physical location and fair value of the fixed assets at any time. It was, also, observed during the physical verification that assets were not tagged. Scrutiny of the assets register for computer and accessories provided for audit revealed that the registers had not been updated.

2. Lack of Proper Filing of Project Files

Review of documents and files revealed that certain documents including ad hoc committees' appointment letters, signed contract agreements and other tender documents were not being attached in the respective project files. This was mainly observed in the expenditure of the Education, Youth Affairs, Gender and Social Services Department.

Consequently, the reliability of records kept could not be confirmed.

3. Lack of Risk Management Policy and Risk Assessment Reports

The County Executive did not have a risk management policy, risk management framework and risk register for the management of risk. This affects identification of controls and mitigating factors against risks that may affect the operations of the County Executive.

Consequently, the risks inherent in the county operations may not be identified and minimized in a timely manner.

4. Failure to Automate Revenue Collection

It was observed that the County Executive had not automated all its revenue collection systems for revenue sources such as own generated revenue namely; Single Business Permits, Land Rates, Slaughter fees, Buildings and Plan Approval Fees. This has impacted negatively on the identification, collection and accounting for own generated revenue.

5. Poor Management of Information Communication Technology

5.1 Lack of IT Steering and Strategic Committees

The County Executive had not established an IT Steering Committee and IT Strategic Committee. The non-establishment of IT Steering Committee and IT Strategic Committee at the County could result in lack of direction regarding ICT affairs, advice to the Cabinets, proper Budgeting and therefore ICT related projects may not meet the business requirement.

5.2 Lack of ICT Policies and Plans

It was noted that the County Executive did not have in place business continuity plan, disaster recovery plan, backup policy and a backup site. It was also observed that password protocols were not adhered to. The Accounting Officer therefore failed in

instituting appropriate measures to ensure confidentiality of data and information, data integrity and business continuity.

6. Lack of Policy on Pharmacy Records

During the year under review, it was observed that the Pharmacy Department did not maintain a policy on Pharmacy Management. It was observed that the pharmacy operates a manual system for requisition, receipts, issues and stock taking of pharmaceuticals and non-pharmaceutical items which results in weak controls in the pharmacy. Updating the stock control cards takes time and makes it difficult to determine the re-order levels which may assist in stock requisitions.

In addition, it was observed that the expired drugs are kept in the same store together with unexpired drugs which are recorded in the expiry log book. The expiry log book does not indicate the date the drugs are received in the store and the date drugs expired. The inspection and acceptance committee reports were not provided for audit.

Consequently, the lack of controls over the pharmacy may lead to loss of drugs and dispensing of expired medical.

7. Fan Soft System (Software)

During the year under review, it was noted that Bondo Sub-County Hospital inherited a revenue collection software called Fansoft which generates thirteen (13) revenue items namely: X-ray, Inpatient, Mortuary, Laboratory Outpatient, Pharmacy Records Department, Occupational Therapy, Physiotherapy, Orthopedics, Medical Examination, MC/H.FP Services, Theatre, Female Ward, and Dental. However, it was noted that inpatient details were not captured in the system. Further, the system does not capture the full charges for urinalysis and special clinics as it relies on the old charge sheets of Kshs.100 and Kshs.50 respectively after it was revised to Kshs.200 and Kshs.100 respectively.

8. Incomplete In-patient Charge Sheets

During the year under review, it was noted that in-patient charge sheets used to discharge patients from hospital had various anomalies as follows: -

- i. The charge sheet was not signed by the doctor;
- ii. The dates of admission and date of discharge are not indicated on some inpatient charge sheets; and,
- iii. Copies of discharge sheets were not kept in inpatient files.

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.

In preparing the financial statements, Management is responsible for assessing the County Executive's ability to continue to sustain 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.

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 money is applied in an effective manner.

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

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance review is planned and performed to express a conclusion with limited assurance as to 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 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Project's 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

25 February, 2021