

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
COUNTY GOVERNMENT OF KISUMU**

**FOR THE YEAR
ENDED 30 JUNE 2015**

REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON COUNTY GOVERNMENT OF KISUMU FOR THE YEAR ENDED 30 JUNE 2015

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of County Government of Kisumu set out on pages 7 to 40, which comprise the statement of assets as at 30 June 2015, and the statement of receipts and payments, statement of cash flows, summary statement of appropriation: combined recurrent and development for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229(4) of the Constitution of Kenya and Section 8 of the Public Audit Act 2003.

Management's Responsibility for the Financial Statements

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 such 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.

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 4 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 9 of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County Government's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, I am not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

1.0 Cash and Cash Equivalent

1.1 Unsupported Bank Balances

- i. The statement of financial assets as at 30 June 2015 reflects bank balances of Kshs.1, 032,683,875. However, as at the time of this audit, the management did not avail for audit review the bank reconciliation statements in support of eleven (11) bank accounts. Further, bank balance confirmation certificates and bank reconciliation statements for recurrent accounts in respect of the forty seven (47) hospitals were not availed for audit review.
- ii. The statement of financial assets reflects a nil cash balance as at 30 June 2015. However, the management did not avail a board of survey report to confirm the cash at hand at the various locations including the sub county collection points.
- iii. A review of the bank reconciliations for three (3) banks indicated that there were receipts totalling Kshs.19,351,186 not yet recorded in the cash books thus understating the revenue reported.

1.2 Bank Accounts omitted from Financial Statements

Information available indicate that excluded from the total cash and cash equivalent balance of Kshs.1,032,683,875 is an amount of Kshs.79,520,160 as detailed below:

Name of bank, Account No	Closing Balance Kshs.
Education Fund A/C 1151900184	14,430,280
Kisumu County Car Mortgage fund A/C 11554615142	65,089,880
Total	79,520,160

Consequently, the validity and accuracy of the bank balance of Kshs.1,032,683,875 could not be confirmed.

1.3 Outstanding Imprest

The total financial assets figure of Kshs.2,028,776,283 includes outstanding imprests totalling Kshs.996,092,408 as at 30 June 2015. However, imprest requisitions and copies of imprest warrants were not availed for audit verification. The management has not explained how the imprest totalling Kshs. 996,092,408 was accounted for as at 30 June 2015.

In the circumstances, the accuracy and completeness of the outstanding imprest balance of Kshs.996,092,408 could not be confirmed.

2.0 Inaccurate Revenue Balance

- i. Included in the total receipts figure of Kshs.6,190,680,293 is Kshs.5,205,576,886 reflected under transfer from National Treasury which is at variance with the cash book and bank statement figure of Kshs.5,615,160,992, resulting in an unreconciled or explained variance of Kshs.409,584,106.
- ii. The statement of receipts and payments reflects tax revenues and other revenues of Kshs.125,599,022 and Kshs.845,304,385 respectively whose supporting ledger records were not availed for audit review.

In the circumstances, validity and accuracy of the receipts balance of Kshs.6,190,680,293 reflected in the statement of receipts and payments for the year ended 30 June 2015 could not be confirmed.

3.0 Compensation of Employees

Included in the statement of receipts and payments is compensation of employees figure of Kshs.3,112,782,517 which includes an amount of Kshs.69,154,385 paid to staff in form of collective bargaining agreement salary arrears. However payment vouchers and other related supporting records were not availed for audit verification. A comparison of the gross earnings paid to employees in the system of Kshs.2,707,747,918 against the amount disclosed in the financial statements of Ksh.3,112,782,517 as compensation of employees revealed a difference of Kshs.405,034,599. The management has not explained the difference.

In view of the foregoing, the propriety and accuracy of compensation of employees figure of Kshs.3,112,782,517 could not be confirmed for the year ended 30 June 2015.

4.0 Acquisition of Assets

Included in the statement of receipt and payments is acquisition of assets of Kshs.1,316,737,029 which includes an amount of Kshs.100,000,000 and Kshs.8,000,000 transferred to Kisumu County Education Fund and Kisumu County imprest and operations accounts respectively. In addition included in the acquisition of assets of Kshs.1,316,737,029 is an amount of Kshs.45,187,272 which was spent on construction of dispensaries, community social hall and irrigation schemes and therefore should have been disclosed under grants and transfers.

Further, the statement of receipts and payments amount of Kshs. 1,316,737,029 under acquisition of assets differs with summary listing of assets disclosed under annexure XV of Kshs.552,230,403, resulting in unreconciled variance of Kshs.764,506,626. In addition, summary listing of assets were not reconciled with balances in the asset register. Also, the reported assets balances in 2014-2015 does not include those assets acquired in 2013-2014 and prior years.

Records available also indicate that land costing Kshs.27,000,000 purchased during the year under review has not been incorporated under annexure XV. The purchase agreement and ownership documents in support of this land were not availed for audit verification.

As a result, the propriety and accuracy of the balance of Kshs.1,316,737,029 in respect of acquisition of fixed assets could not be confirmed.

5.0 Assets and Liabilities inherited from Defunct Local Authorities

The statement of receipts and payments reflects an amount of Kshs.1,316,737,029 under acquisition of assets for the year ended 30 June 2015 (2014: Kshs.276,100,250). The financial statements also reflects pending payables/bills totalling Kshs. 536,460,291 (2014: Kshs.357,826,971) as disclosed under annexure 2 and 3 to the financial statements. However, the County's financial statements for the year do not include the assets and liabilities inherited from the defunct Local Authorities although the county management took possession of the same. In addition, the Inter-governmental Relations Technical Committee which took over from the Transition Authority is yet to formally hand over the assets and liabilities of the defunct Local Authorities to the County Government. It is not clear when the assets and liabilities will be handed over to the County Government.

In view of the above, the financial statements presented by the County Government of Kisumu are not fairly stated.

6.0 Pending Bills

- i. As at 30 June 2015, the County Government had accumulated pending bills totalling to Kshs.536,460,291. Failure to pay bills in the year they relate distorts the financial statements for the year and adversely affects provisions for subsequent years. Had these bills been paid, the statement of receipts and payment would have resulted to a decreased surplus of Kshs.130,968,321 instead of the Kshs.667,428,612 now reflected in these financial statements.
- ii. Included in the pending bills figure of Kshs.536,460,291 is Kshs.52,210,723 for goods, works and/or services that had not been executed to warrant terming the commitments as pending bills. The amount of Kshs.52,210,723 was not supported by invoices, completion certificates from the technical departments and/or inspection and acceptance committee reports. Some Local Service Orders (LSOs) worth Kshs.5,010,608 raised were not signed by the suppliers hence legally binding contracts had not been entered into.
- iii. Information available indicated that CMC motors supplied forty (40) motor vehicles in FY 2014-2015 at a cost of Kshs.207,510,800. The supplier was paid Kshs.186,481,305 leaving outstanding balance of Kshs.21,029,495 as at 30 June 2015. However, the pending bills figure of Kshs.536,460,291 reflects Kshs.39,265,768 as outstanding balance owed to CMC leading to unreconciled/unexplained variance of Kshs.18,236,273.

Consequently, the propriety of the expenditure could not be confirmed and value for money may not have been achieved.

7.0 Review of IFMIS Operations

7.1 Financial Statements and the Integrated Financial Management Information System (IFMIS) Ledger

It was noted that the figures reported in the financial statements do not tie with the figures in IFMIS ledger as follows:

Details	Financial Statements Kshs	IFMIS report Kshs	Variance Kshs
Receipts	6,190,680,293	-	6,190,680,293
Payments	5,523,251,681	3,009,641,000	2,513,610,681
Financial Assets	2,028,776,283	-	2,028,776,283
Opening Balances	1,284,795,000	-	1,284,795,000
Total Variance			12,017,862,257

7.2 Variances between the Budget Execution Report in the IFMIS and Figures Disclosed in the Financial Statements

The table below shows the discrepancies noted between the budget execution reports extracted from IFMIS by management and the summary statement of appropriation presented in the financial statements:

Development budget	Budget (Kshs)	Actual Expenditure (Kshs)
As per financial statements	2,851,015,472	1,352,712,110
As per extracted report from IFMIS	2,811,367,472	1,392,679,174
Variance	(39,378,000)	39,967,064
Recurrent budget		
As per financial statements	5,088,967,861	4,170,539,571
As per extracted report from IFMIS	5,105,879,761	1,534,256,324
Variance	16,911,900	2,636,283,247

These financial statements figures are therefore not supported by IFMIS which is the principal reporting system for County Governments. In the circumstances, the accuracy and validity of these financial statements for the year ended 30 June 2016 could not be confirmed.

8.0 Staff Remuneration / Salaries and Wages

8.1 Irregular Payment of Extraneous Allowances

Included in the statement of receipts and payments under compensation to employee's figure of Kshs.3,112,782,517 is Kshs.3,775,000 paid by the County Government to thirteen (13) officers as extraneous allowance without any approval from the County Public Service Board and Salaries and Remuneration Commission (SRC) contrary to circular ref: SRC/TS/RECM&E/3/68 dated 17 November 2014 paragraph iv.

Consequently, the propriety of Kshs.3,775,000 being payment of extraneous allowances could not be confirmed.

8.2 Ghost Employees in the (IPPD) Database System

During the month of January, 2015, the County Government paid all its employees through cheques, which were to be collected by the employees themselves. However, twenty five (25) employees did not turn up to pick up the cheques which still remained uncollected in September, 2015. This is a pointer that the County Government may

have been making payments amounting to Kshs.2,379,315 per month, being the gross monthly salary to the employees who did not turn up to collect the cheques. It was not possible however to quantify how much the County Government may have lost in total due to missing information in the personnel files.

Consequently, the propriety of payments of Kshs.2,379,315 could not be confirmed.

9.0 Procurement of Goods and Services

9.1 Procurement of Ground Equipment and Motor Cycles

Included in the statement of receipts and payments under acquisition of assets figure of Kshs.1,316,737,029 is Kshs.4,475,000 paid to M/s Duponet Systems in July 2014 in respect of supply of ground equipment and six motor cycles. Physical verification in September 2015 revealed that the equipment and motor cycles were still lying idle in the stores since delivery on 29 September 2014. The six (6) Yamaha motor cycles had not been registered with the registrar of motor vehicles. No valid contract had been entered into with the contractor since the contractor did not sign the local service order. Further, the annual procurement plan was not availed for audit verification to ascertain how the project was initiated. There were also no opening tender minutes, technical evaluation reports and contract agreements availed for audit review.

The ground equipment and the six motor cycles are depreciating and lying idle and the residents of Kisumu may not derive the benefits of the equipment if not put into proper use. Consequently, the propriety of the expenditure of Kshs. 4,475,000 for the year ended 30 June 2015 could not be confirmed.

9.2 Procurement of Seeds from Kenya Seed Ltd

Included in the statement of receipts and payments under other grants and transfers figure of Kshs.318,025,721 is Kshs.10,000,000 paid to Kenya Seed Company Ltd vide Pv.9763 dated 2 March 2015 for supply of rice and sorghum seeds at a contracted sum of Kshs.12,544,000 which were delivered in various sub counties. It was not clear why the expenditure was charged under general suspense account in the IFMIS system. A feasibility study report was not availed for audit verification. Receipt vouchers that should have been proof of delivery of the seeds was also not attached to the payment voucher and therefore the seeds could not be confirmed to have been delivered.

Physical Verification revealed the following:

- i. A visit to farms belonging to three main farmers in Seme Sub County revealed that the seeds were distributed. However, the harvest was noted to be very poor, casting aspersion on the quality of the seed.
- ii. There was no rice mill in the locality and respective farmers had not milled their produce due to lack of milling facilities.
- iii. Some farmers visited did not even plant the seeds given.

The whole project of free seeds by the County Government of Kisumu may not have achieved value for money or the intended purpose. Consequently, the propriety of the Kshs.10,000,000 paid to Kenya Seed Company Ltd could not be confirmed.

9.3 Procurement of Bedside Lockers

Included in the statement of receipts and payments under use of goods and services figure of Kshs.759,899,310 is Kshs.2,700,000 paid to a Company to supply bedside lockers (cabinet) to Jaramogi Odinga Teaching and Referral Hospital. The following issues were noted;

- i. Only two quotations were sent instead of at least three quotations as required by procurement regulations.
- ii. Only one person opened the quotations and two persons evaluated the quotations instead of the four officers who were indicated as having evaluated the quotations as was shown in the evaluation report.
- iii. The facility procured one hundred and fifty (150) bedside lockers as opposed to only twenty six (26) as was evaluated in the quotations.

In the circumstances, it could not be confirmed whether value for money was realized from the supply of bed side lockers costing Kshs.2,700,000.

9.4 Procurement of Stationery and Accountable Documents

Included in the statement of receipts and payments under use of goods and services figure of Kshs 759,899,310 is Kshs.35,686,354 paid to two firms for the supply of stationery and accountable documents. However, it was not clear how the two firms were identified as there was no evidence of tender advertisement, tender evaluation and award. Goods Received Notes were not attached to payment vouchers, making it impossible to confirm if these goods were received in the stores and taken on charge. It was also not clear why some of the payments for stationery were charged under general suspense account. In the circumstances, it could not be confirmed whether value for money was realized from the above supplies costing Kshs.35,686,354.

9.5 Unsupported Emergency Fund

Included in the statement of receipts and payments under other grants and transfers figure of Kshs.318,025,721 is Kshs.5,000,000 and Kshs.2,000,000 being transfer by the County Treasury from the Development Bank Account on 14 November 2014 and 30 April 2015 respectively to the Kisumu County Emergency Fund under department of Governance and Administration. However, bank statements for the emergency fund and details on how the funds were utilized were not made available for audit review.

Consequently, the propriety of the emergency fund expenditure amounting to Kshs7,000,000 for the year ended 30 June 2015 could not be ascertained.

9.6 Flood Mitigation Programme

Included in the statement of receipts and payments under other grants and transfers figure of Kshs.318,025,721 is Kshs.76,414,572 paid to nineteen (19) contractors to desilt streams within Kisumu County under the flood mitigation programme against a budgetary allocation of Ksh. 100 million.

The following observations were made:

- i. There was no evidence of any advertisement in a newspaper of national circulation.
- ii. The tender committee evaluated the bidders based on tender prices without considering the technical capability of the bidders during the evaluation process.
- iii. Tender bids submitted by contractors included amounts set aside for contingencies and project supervision expenses totalling Kshs.5,272,109 and Kshs.3,800,000 respectively. However, these funds were used to cater for variations of works initiated by the project supervisor but which were not authorized by the tender committee as required.
- iv. No inspection and acceptance committee was established to measure, value and accept works undertaken.
- v. The projects were implemented during the rainy season between March and April 2015 and from a physical verification of works carried out, the embankments have begun to wear off due to human activity.

Consequently, the propriety of Kshs.76,414,572 being flood mitigation program could not be ascertained.

10.0 Projects

10.1 Stalled Children's Centre of Excellence at New Nyanza Provincial General Hospital

Included in the statement of receipts and payments under acquisition of assets figure of Kshs.1,316,737,029 is an expenditure of Kshs.55,167,037 paid to four (4) contractors. M/S Cell Arc Systems was awarded a contract for the erection and completion of children's HIV/AIDS Clinical Centre of Excellence on 29 May 2012 at a contract sum of Kshs.98,840,375. M/S Muga electrical contractors was awarded contract for electrical works sub-contract at a sum of Kshs.7,531,700. M/S Pong agencies Limited was awarded works for EPABX installation at a sum of Kshs.3,574,190 and M/S Everfortunes Company Limited was awarded contract for mechanical ventilation and air-conditioning at a sum of Kshs.4,015,900.

However the following were noted:

- i. The contract agreement indicated that the contract duration was 52 weeks. The commencement date was 14 June 2012 and original completion date was to be 30 May 2013. The contract duration had long expired and no evidence of extension was availed for audit review.
- ii. No contract agreement and bill of quantities for EPABX installation sub-contract were availed for audit review.
- iii. The contract agreement given to Everfortunes Company Limited for supply, delivery, installation, testing and commissioning of plumbing, drainage, fire protection services and water reticulation services at a sum of Kshs.8,523,548 was not availed for audit review.
- iv. Kshs.5,517,005 had been deposited into the retention monies account with the Kisumu East District Treasury. No explanation and documentary evidence was availed as to why this amount was not transferred to the County Deposit

Account since the health sector falls under the County Government. Bank statement(s) to support the availability of the retention monies was not availed for audit scrutiny.

- v. The 5 interim payment certificate was done without evidence of work carried out since construction works had stopped for the last 36 weeks as reported in the project status report of 19 June, 2015.
- vi. Physical verification on 24 November, 2015, revealed that although the building was in place, done up to roofing level, the contractor did not put the roof cover as specified in the bills of quantities and the roofing sheets had huge gaping holes all over. In addition, the paint had started peeling off as at the time of audit and the contractors were not on site during the time of physical verification an indication that the work had stalled completely. Further, no doors were fixed and the sentry house and perimeter wall were half complete.

Consequently, it has not been possible to ascertain if the County Government obtained value for money on this project as at 30 June 2015.

10.2 Renovation of Deputy Governor's House

Included in the statement of receipts and payments under use of goods and services figure of Kshs.759,899,310 is Kshs.3,099,879 paid to a contractor to renovate a house for the Deputy Governor. However it was not clear why the contract agreement was signed on 26 February 2015 after the invoice had been issued on 28 August 2014 six (6) months earlier. The compound had partially been landscaped although the house had not been occupied since the bath room was yet to be completed. There were two extensions to the building which were not in the bill of quantities. Physical verification of the same building revealed that a fence indicated in the BQ at Kshs.150,000 had not been done yet a certificate had been issued for payment of the same and the contractor was not on site.

Consequently, the propriety of the expenditure of Kshs.3,099,879 could not be ascertained.

10.3 Payment for Incomplete Works

Included in the statement of receipts and payments under acquisition of assets figure of Kshs.1,316,737,029 is Kshs.2,773,707 paid to a contractor in respect of branding and installing fifty (50) litter bins in Kisumu City. However, the inspection and acceptance committee reports revealed that the litter bins were just delivered but not installed. No explanation was made available as to why the contractor was paid the whole amount without executing the works as per the letter of award and local service order. The contractor did not enter into a valid contract by signing the local service order. There was no documentation availed to show how the contractors were notified of the project. Opening tender minutes and technical evaluation reports and contract agreement were also not availed for audit review and neither was the letter of acceptance.

Consequently, the propriety of the expenditure of Kshs.2,773,707 could not be ascertained.

10.4 Abandoned Construction of Hawkers Sheds

Included in the statement of receipts and payments under acquisition of assets figure of Kshs.1,316,737,029 is Kshs.2,301,960 paid by City of Kisumu towards construction of hawkers' shed on a leased piece of Land owned by Kenya Railways. The project was abandoned before completion for unknown reasons after having spent Kshs.2,301,960 which was used to erect a section of the sheds. At the time of audit, the metal bars used had been vandalized. Lease letter from Kenya Railways indicated that the lease was for 6 years with annual fees of Kshs.2,820,000, commencing in 2012. Further, the lease letter indicated that the parcel of land was leased for a car park only while the City's drawings indicated that hawkers' sheds were to be constructed, without any provision for a car park. To date, there has been no evidence of payment made to Kenya Railways for the lease.

Consequently, the propriety and value for money for the expenditure of Kshs.2,301,960 could not be confirmed.

10.5 Payments to Rural Electrification Authority (REA)

- i. Included in the statement of receipts and payments under acquisition of assets figure of Kshs.1,316,737,029 is Kshs.30,000,000 paid to Rural Electrification Authority (REA). The County Department of Energy and mining entered into an arrangement with REA to finance electrification of market centres and installation of solar flood lighting in the County. The County was to contribute Kshs.30 million and a similar amount was to be contributed by REA giving a total of Kshs.60 million.
- ii. No clear timelines were set for commencement and completion of the projects.
- iii. Physical verification in September 2015 revealed that the projects had not taken off with no clear indication as to when the work was to start and no reason was provided for delay in starting the projects.

Consequently, it has not been possible to ascertain if the County Government obtained value for money totalling Kshs.30,000,000 spent on the Electrification program.

10.6 Construction of ECDs Classrooms at Okanga

Included in the statement of receipts and payments under acquisition of assets figure of Kshs.1,316,737,029 is Kshs.1,514,144 paid to a contractor to construct two ECD classrooms at Okanga at a contract sum of Kshs.2,337,922 out of which Kshs.1,514,144 was paid in the Department of Education during the year under review. The said project was not factored in the 2014/15 financial year. An irregular payment of unverified pending bill outside 2014/15 budget was made. Consequently, the propriety of the expenditure amounting to Kshs.1,514,144 for the year ended 30 June 2015 could not be confirmed.

10.7 Payments to West Link Electrical for Work not Done

Included in the statement of receipts and payments under acquisition of assets figure of Kshs.1,316,737,029 is Kshs.4,474,978 paid to a contractor for installation of street lighting at Makasembo road. The following anomalies were noted:

- i. There was no installation of street lights at Makasembo road as physically verified on 25 August 2015.
- ii. It was not clear if proper pre-feasibility studies were carried out as the project manager purported to have changed the installation of street lighting from Makasembo road to Ring road through his unreferenced letter dated 29 January 2015 and whether the residents of Makasembo were informed of the project change. This amounted to a new contract which should have been tendered a fresh.
- iii. It was not clear how the contractors were notified of the said project since no evidence was availed for audit review.
- iv. Opening tender minutes and technical evaluation reports were not made available for audit examination.
- v. The first payment certificate of Kshs.4,474,978 purported that installation of street lights was done at Makasembo and yet there was no evidence of work done.

Consequently, the propriety of the expenditure amounting to Kshs.4,474,978 could not be confirmed.

10.8 Stalled Ward Project at Lumumba Health Centre

Included in the statement of receipts and payments under acquisition of assets figure of Kshs.1,316,737,029 is Kshs.6,692,382 paid to a contractor for the construction of a ward at Lumumba Health Centre. The following issues were however noted:

- i. There were no opening tender minutes and technical evaluation reports availed for audit review.
- ii. The duration of the contract was six (6) calendar weeks (2/07/14 to 13/08/2014). A physical verification of the project on 25/08/2015 revealed that the contractor had done up to roofing level with no plastering done, no windows and doors fixed.
- iii. The contractor was not on site during the day of physical verification (25/08/15) and no work appeared to be on going even though a sum of Kshs.6,692,382 had been paid out.
- iv. The contract period had long elapsed and no request for extension document was availed for audit review.

Consequently, it has not been possible to ascertain if the County Government obtained value for money on expenditure totalling Kshs.Ksh.6,692,382.

10.9 Stalled Dispensary Block at Nyakoko Dispensary

Included in the statement of receipts and payments under acquisition of assets figure of Kshs.1,316,737,029 is Kshs.1,638,480 paid to a contractor for construction of dispensary block at Nyakoko Dispensary at a contract sum of Kshs.5,773,190. However, the following observations were made:

- i. No documents were availed for audit review to confirm how the contractors were notified of the project.
- ii. No opening tender minutes and technical evaluation reports were availed for audit review.
- iii. A physical verification of the project on 02/09/2015 and from the examination of the documents availed revealed that the contractor had carried out the work up to the window level.
- iv. The contractor was not on site during the day of physical verification (02/09/15) and no work appeared to be on going even though a sum of Kshs.1,638,480.00 had been paid.
- v. The ownership of the land on which the dispensary was being constructed was not established because it appeared to have been built on private land.
- vi. No site office was seen and the contract period was not specified in the tender documents.

In the circumstances, the propriety of the expenditure on Nyakoko dispensary totalling Kshs.1,638,480 could not be ascertained.

11.0 Roads

11.1 Grading of Roads at Sugar Belt Roads

Included in the statement of receipts and payments under acquisition of assets figure of Kshs.1,316,737,029 is Kshs.10,000,000 transferred to the Sugar Belt Roads account held at Kenya Commercial Bank Ltd – Kisumu Branch. As at 4 July 2015, the account had a balance of Kshs.2,835,955. These funds were to be used for grading of roads within the sugar belt area. The expenditure had not been budgeted for and the management has not explained the procedure used to identify Jorumi Company services and Artech Construction Limited who were paid Kshs.1,970,550 and Kshs.1,600,000 for gravel, excavation and haulage on Mariwa access road in Koru ward. Physical verification of the projects revealed that Mariwa access road in Koru was 75% complete though the works had stalled. The County Government may not have obtained value for money on the grading expenditure totalling Kshs.7,164,045 for the year ended 30 June 2015.

11.2 Rehabilitation of Forems-Lolwe Road

Included in the statement of receipts and payments under acquisition of assets figure of Kshs.1,316,737,029 is Kshs.2,917,052 paid to a contractor for extra work in respect of rehabilitation of Forem-Lolwe road. However, no opening tender minutes and technical evaluation reports were availed for audit examination. The performance bond provided by the contractor for the second contract of Kshs.2,917,052 had expired by 19 May 2015 even before the contract had been entered into on 20 May 2015. No letter of acceptance was availed for audit examination. There was also no advertisement carried out for the extra works of Kshs.2,917,052 and it was not clear how the contractor was identified and whether value for money on the project was obtained. As per the contract agreement, the contract was to take one month but it was not clear why the works were evaluated on 21 May 2015, which was barely a day after the signing of the contract. This casted doubt as to the genuineness of the works

measured. The variation works were included in the first bill of quantities of Kshs.9,980,640 under bill number 3 under the item of drainage works/structures. It was not possible to establish why the same works would be done again in the second contract. The contractor requested for the variation works vide his letter reference number KCG/012/2014/15 dated 4 December 2014 instead of the variation works being initiated by the project manager.

Physical verification of the project on 25 August 2015 revealed that works totalling Kshs.718,500 in respect of supply and installation of concrete pipe, culverts and bumps had not been carried out as detailed in the variation works. Consequently, the County Government may not have received value for money on the road works amounting to Kshs.2,917,052 for the year ended 30 June 2015.

12.0 Car Loan and Mortgage Schemes

An audit review and examination of the cash book, bank statements and bank reconciliation statements for Diamond Trust Bank account revealed the following:

- i. The cash book for revolving credit facility had not been updated as from February 2015 to the time of the audit in August 2015.
- ii. The loans were not supported with any physical collateral and are not co-owned by both the bank and the individual County Executive Committees through acquisition of log books in the joint names and encumbrance of the title of the mortgage.
- iii. The County Government irregularly transferred/paid Diamond Trust Bank on the 9 January 2015 an amount of Kshs.660,000 being non-refundable appraisal fee which should have been paid for by the beneficiaries of the car loan and mortgage loan and not the County Government in line with revolving fund policy.

12.1 Payment of Outstanding Loan for five (5) Sacked CEC Members

The County Government revoked the appointment of five (5) persons from the position of County Executive Committee Members of the County Government of Kisumu. As at the time of their revocation, the CEC had car loans and mortgage loans outstanding balances of Kshs. 22,466,669.96 as tabulated below:

Loan Reference	Name of the Former County Executive Committee Member	Loan Balances that were Liquidated (Kshs.)
004TLAA143220009	Rhoda Ahono Badha	4,563,181.16
004TLAA143320002	Barack Otieno Abonyo	4,559,213.78
004TLAA143240001	Stephen Otieno Orot	4,012,917.66
004TLAA143220006	Kodera Vincent Adda	4,562,952.44
049TLAA150230002	Joseph Omullo Okal	4,768,404.92
	Total	22,466,669.96

- i. In the month of February, 2015 Diamond Trust Bank without any written authority from the County Government liquidated all the loans of the

sacked/relieved County Executive Committee Members from the lien account of the County Government.

- ii. The personal loans that were advanced to the former County Executive Committee Members should not have been charged against public funds of the County Government.

Consequently, the propriety of the expenditure could not be confirmed and the County stand to lose Kshs.22, 466,669.96 paid to sacked CECs.

13.0 Payments to Council of Governors

Included in the statement of receipts and payments under use of goods and services figure of Kshs.759,899,310 is Kshs.11,073,289 paid by the County Government of Kisumu from its recurrent vote to the Council of Governors on diverse dates between January and June 2015 in respect of inter-governmental relations contributions and other related expenses. The paid amount of Kshs.11,073,289 when compared to the outstanding amount demanded as per statement dated 9 October 2014 of Kshs.7,968,468 translates to a likely overpayment by Kshs.3,104,821. The County further paid M/s Panesars Kenya Ltd Kshs.3,737,868 in respect of supply of assorted furniture which had been procured by the Council of Governors office vide LPO No 568 dated 23 September 2014. The furniture was received by the procurement department at the Council of Governors on 25 September 2014 and it remains unclear why the supplier was subsequently paid by the County Government of Kisumu.

The contributions totalling Kshs.11,073,289 made by the County were in breach of the law and therefore irregular for the year ended 30 June 2015.

14.0 Budgetary Control and Performance

14.1 Budget Performance Analysis

During the year under review, the approved final budget for Kisumu County Government was Kshs.7,939,985,333 with Kshs.5,088,969,861 (64%) allocated to the recurrent expenditure and Kshs.2,851,015,472 (36%) to development expenditures as follows:

Item	Budgeted Allocation 2014/2015	Actual Expenditure 2014/2015	Absorption rate %
Development for 2015	1,653,147,600	189,711,845	11%
Development 2013-2014	1,197,867,872	1,046,760,405	87%
Recurrent and pending bills	5,088,969,861	5,053,587,840	99%

Review of the development budget revealed under absorption of 13% and 89% for the year ended 30 June 2015 and 2014 respectively. The under absorption is an indication of development projects not implemented as planned or lack of proper budgeting mechanism hence need to refocus on the budget making process with a view to focusing on priority areas.

14.2 Expenditure Analysis

During the financial year 2014-2015, the County Government of Kisumu budgeted to spent Kshs.7,939,985,333 with Kshs.5,088,969,861(64%) and Kshs.2,851,015,472(36%) on recurrent and development vote respectively. The actual expenditures on recurrent amounted to Kshs.5,053,587,540 and Kshs.1,236,472,250 on development representing a 99% and 43% absorption rate respectively as shown below:

Department	Budget Allocation Kshs.		Actual Expenditure Kshs.		Absorption rate (%)	
	REC	DEV	REC	DEV	REC	DEV
Governance and Administration	375,568,636	100,000,000	2,793,046,780	81,012,357	744%	81%
Finance and Planning	856,420,002	1,267,867,872	546,276,843	1,046,760,405	64%	83%
Health Services	1,981,199,629	145,900,000	982,797,173	-	50%	0%
Torism, Trade and Heritage	64,705,426	67,160,000	20,293,171	2,000,936	31%	3%
Transport and Infrastructure	109,209,830	670,095,440	23,616,364	12,917,052	22%	2%
Land, Housing and Physical Planning	28,592,509	100,846,520	7,794,845	-	27%	0%
Industrialization & Enterprise Devp't	40,736,210	12,000,000	13,792,270	420,000	34%	3%
Agriculture, Livestock and Fisheries	298,221,672	10,000,000	39,581,007	15,000,000	13%	150%
Education, Gender, Culture & Sports	94,358,229	320,945,640	86,875,259	45,352,000	92%	14%
Water, Environ't & Natural Resources	86,832,901	111,800,000	30,047,285	3,009,500	35%	3%
Energy and Mining	24,208,173	44,400,000	15,471,375	30,000,000	64%	68%
City of Kisumu	757,577,345	-	100,523,256	-	13%	-
County Assembly	371,339,299	-	393,471,913	-	106%	-
Total	5,088,969,861	2,851,015,472	5,053,587,540	1,236,472,250	99%	43%

- There was a gross under utilization of Kshs.35,382,321 and Kshs.1,614,543,222 for recurrent and development respectively.
- Review of the budget performance by department shows that the Governance and Administration had the highest absorption rate of its recurrent budgets at 744% which was not approved by the County Assembly through supplementary budget. On the other hand Agriculture and City of

Kisumu attained the lowest recurrent absorption rates at 13% of the budgeted allocation for the year 2014/15.

- iii. Included in the finance and planning development budget figure of Kshs.1,267,867,872 is Kshs.1,197,867,872 relating to 2013-2014 project commitments of which Kshs.1,046,760,405 was paid in the year under review. Projects budgeted totalling Kshs.70,000,000 relating to 2014/2015 were not implemented.
- iv. The Department of Agriculture, Livestock and Fisheries had a development budget of Kshs.10,000,000 which was meant for dairy, poultry, aquaculture, irrigation and food security but the department exceeded the development budget by 50% on purchase of motor vehicles and no indication of approval by the County Assembly as per Public Financial Management (PFM) Act 2012.
- v. The total actual expenditure of Kisumu County Assembly reflected Kshs.393,471,912 against a budgeted figure of Kshs.371,339,299 resulting in an over release from the County Executive of Kshs.22,132,612. No explanation was provided for the over disbursement or approval of the excess.
- vi. The total payments details from cash book reflected total expenditure of Kshs.6,290,060,090 which differs with total expenditure as per the summary of appropriation balances of Kshs.5,523,251,681 excluding imprest of Kshs.996,096,408 resulting in unreconciled/unexplained variance of Kshs.229,287,999.

14.3 Development Expenditure

Included in the total approved development expenditure of Kshs.2,851,015,472 is Kshs.1, 653,147,600 which was allocated to eleven departments during the 2014-2015 financial year to finance 555 projects. Implementation of these projects were behind schedule and by November 2015, only Kshs. 189,711,845 had been spent on 79 projects, which represent only 11% of the funds allocated as follows:

Department	No of Budgeted Projects	Budget	Actual Expenditure	No of Projects implemented	% Level of Implementation
		Kshs.	Kshs.		
Governance and Administration	19	100,000,000	81,012,357	19	81%
Finance and planning	4	70,000,000	-		-100%
Transport and infrastructure	237	670,095,440	12,917,052	39	2%
Education, youth, culture and social services	118	320,945,640	45,352,000	6	14%
Water, Environment and Natural Resources	52	111,800,000	3,009,500	12	3%
Health Services	49		-	-	-100%

		145,900,000			
Tourism, Trade and Heritage	43	67,160,000	2,000,000	1	3%
Enterprise development and industrialization	5	12,000,000	420,000	1	4%
Energy and mining	19	44,400,000	30,000,000	1	75%
Agriculture, livestock and fisheries	5	10,000,000	15,000,000	-	150%
Lands, housing and physical planning	4	100,846,520	-	-	-100%
Total	555	1,653,147,600	189,711,845	79	11%

The following observations were also made;

- i. The delay in implementation of projects is likely to affect the implementation of subsequent projects. Out of the budgetary allocation of Kshs.1,653,147,600, only Kshs.189,711,845 was utilized in the projects and only Kshs.228,010,887 was in the bank account as at 30 June 2015. It is not clear how the balance of Kshs.1,235,424,868 was utilized.
- ii. These projects were not implemented in the budget period but were posted to the IFMIS vote book as outstanding commitments.
- iii. Delayed implementation of projects is an indication of services denied to the public. Further, due to inflationary factors the project costs may escalate. The County Government may have incurred additional expenditure that may have not been planned or budgeted.

14.4 Expenditure Analysis of the Office of the Governor

The analysis of the County Executive recurrent budget which comprises the office of the Governor and Deputy Governor is as detailed below:

Details	Budget	Actuals	Variance	% Absorption rate
Basic salary	104,231,064	2,513,427,794	2,409,196,730	2411%
Utilities Supplies and Services	3,931,813	2,173,998	(1,757,815)	55%
Communication Supplies and Services	4,870,000	3,173,385	(1,696,615)	65%
Domestic Travel and Subsistence, and Other Transportation Costs	37,717,633	40,015,352	2,297,719	106%
Foreign travel	6,117,062		(6,117,062)	0%
Printing , Advertising and Information Supplies and Services	26,640,000	13,642,879	(12,997,121)	51%

Rentals of Produced Assets	6,800,000		(6,800,000)	0%
Training Expenses	11,841,412	1,712,910	(10,128,502)	14%
Hospitality Supplies and Services	23,800,000	22,903,292	(896,708)	96%
Insurance cost	4,000,000	23,752,083	19,752,083	594%
Office and General Supplies and Services	16,227,530	3,163,464	(13,064,067)	19%
Fuel Oil and Lubricants	11,050,000	8,361,079	(2,688,921)	76%
Other Operating Expenses	11,831,400	12,782,784	951,384	108%
Routine Maintenance - Vehicles and Other Transport Equipment	3,539,786	3,023,637	(516,149)	85%
Routine Maintenance - Other Assets	6,600,000	3,409,239	(3,190,761)	52%
Purchase of Office Furniture and General Equipment	96,370,936	9,767,528	(86,603,408)	10%
Imprest and General suspense		131,737,355	131,737,355	
Total	375,568,636	2,793,046,779	2,417,478,143	744%

- i. The Governor's Department exceeded its recurrent expenditure budget by Kshs.2,417,478,143 which was attributed to payment of personnel emoluments instead of charging personnel costs to the respective departmental votes.
- ii. The expenditure on domestic travel and insurance cost had the highest over expenditure and no explanation was provided for the material variations neither were reallocations regularized through supplementary budget.
- iii. Included in the recurrent expenditure of Kshs.2,793,046,779 is Kshs.131,737,354 paid outside the IFMIS vote book on account of general suspense and imprints.

Failure to complete the projects on time is a manifestation of poor delivery of services to the people of Kisumu County. The County Government may fail to attain effective delivery of goods and services due to slow implementation and absorption of projects funds.

14.5 Under /Over Expenditure

Examination of the County Government final budget vis-a-vis the actual expenditure under summary of appropriation as reflected in the financial statements revealed over and under expenditure as analyzed below;

Item	Budget 2014-2015	Actuals 2014-2015	Over	Under	% Absorption rate
Compensation of Employees	2,826,461,723	3,112,782,517	286,320,794	-	110%
Use of Goods and Services	1,962,120,982	759,899,310	-	1,202,221,672	39%

Transfers to Other Government Entities	20,004,000	-	-	20,004,000	-100%
Other Grants and Transfers	200,000	318,025,721	317,825,721	-	1590%
Social Security Benefits	11,729,711	15,807,104	4,077,393	-	134%
Acquisition of Assets	3,038,466,917	1,316,737,029	-	1,721,729,888	43%
Loans & Mortgages	81,000,000	-	-	81,000,000	-100%
Total	7,939,983,333	5,523,251,681	608,223,908	3,024,955,560	70%

From the above analysis, it is clear that the County under spent on use of goods and services and acquisition of assets but overspent on compensation of employees and other grants and transfers to the tune of Kshs.1,202,221,672, Kshs.1,721,729,888, Kshs.286,320,794 and Kshs.317,825,721 respectively.

The over expenditure were not regularized through supplementary budget and the under expenditure imply services not delivered to the residents of Kisumu County.

15.0 Revenue Analysis

During the financial year 2014/15, the County Government had budgeted for a total revenue of Kshs.6,916,106,404 from the National Government, loans and local source. However a total of Kshs.6,190,680,293 was collected resulting in a realized shortfall in revenue collection by Kshs.715,426,111 as follows;

	Budget	Actuals		
Item	2014-2015	2014-2015	Over	Under
Tax Receipts	744,832,967	125,599,022		619,233,945
Proceeds from Domestic and Foreign Grants	14,200,000	14,200,000	-	
Exchequer releases	4,957,071,160	4,957,071,160	-	
Level 5 Conditional Grant	248,505,726	248,505,726	-	
Loan & Grants	196,329,518	-		196,329,518
Other Receipts	755,167,033	845,304,385	90,137,352	
Total Receipts	6,916,106,404	6,190,680,293	90,137,352	815,563,463

- The County operates a single bank account number 1141991705 at the Kenya Commercial Bank into which revenues from the six sub counties is banked. No record is maintained at the County headquarters and hence the amount collected could not be reconciled. Consequently, the amount of revenue collected could not be ascertained resulting in a possibility of revenue leakage.
- The generated report from LAIFOMS revealed that the City of Kisumu is owed a total of Kshs.10.1 billion in form of outstanding rates. However, it managed to collect land rates arrears of Kshs.7,847,381 in the year. Most of the accounts have

remained outstanding for a long time and in the process accumulating huge penalties. One defaulter with an annual rate bill of Kshs.772,800 is reported to owe Kshs.4.4 billion in outstanding rates. The County may not have achieved revenue targets and this may have affected service delivery to the residents.

16.0 LAIFOMS

During the year, the main revenue sources collected and accounted for were land rates and business permits. Analysis of the revenue collected in LAIFOMS revealed the following;

- i. The County officials did not post the bankings' in the system during the year. This module in LAIFORMS enables the County to effectively monitor the daily bankings' of revenue collected.
- ii. The County collected Kshs.509,158,043 but examination of the bank pay in slips indicated that only Kshs.486,170,571 was banked leading to an under banking of Kshs.22,987,571 contrary to section 109 of the Public Finance Management Act, 2012. Included in the amounts banked are 37 instances where the county officials delayed depositing the daily revenue of Kshs.10,182,828 for between 3 and 99 days.
- iii. Analysis of the incoming cheques collected during the year indicated that the County has been receiving post-dated cheques for revenue collected. The County received 23 cheques of Kshs. 1,433,190 which were postdated for 5-50 days.
- iv. The County neither maintains an updated cash book nor prepares monthly bank reconciliation statements for effective monitoring of revenue, timely detection and correction of errors, unusual transactions, unrepresented cheques and any collections that may not be reflected in the bank statements, contrary to Section 104 (1) (j) of the Public Finance Management Act, 2012.

Revenue collected may be illegally utilized for unauthorized transactions before it is accounted for in the County Revenue Fund. The county may not timely detect and correct any errors or unusual transactions in revenue collection.

16.1 E-Revenue System

The E-Revenue system also called zizi revenue collection solution was procured by the County Government from River Bank Solutions Limited and Kenya Commercial Bank Limited. The system is open source software which was installed and rolled out in April 2015. The system is currently being used for collection of revenue from market and parking fees. The system functionalities include the use of a point of sale (POS) terminal for collection of revenue and issuance of a receipt. On a daily basis, the POS terminal generates a Z-report which shows all the daily collections under each category. The Z-report is then used for the banking of the revenue collected and the bank statement clearly indicates the Z-report number, name of payee and amount deposited.

Analysis of revenue data revealed the following;

- i. The system was to be implemented within 90 days from the date of contract, which is 19 February 2015. At the time of this audit in November 2015, the system had not been commissioned.
- ii. Upon the system roll out in April 2015, there were no user acceptance testing reports and signoffs.
- iii. Revenue collection of Kshs.4,880,150 was recorded in the E-Revenue system and later receipted in LAIFOMS. This clearly indicates double recording of revenue and also poses a risk in audit trail of revenue collected as follows;

Month	Amount Kshs
April 2015	2,370,450.00
May 2015	1,244,080.00
June 2015	1,265,620.00
Total	4,880,150.00

- iv. The E-revenue system recorded revenue collection of Kshs.44,137,770 for the period between 13 April and 30 June 2015. Examination of the bank statements and bank pay in slips however indicated that only Kshs.21,007,018 was banked. Therefore, revenue collected of Kshs.23,130,752 was not accounted for in the County revenue fund as shown below;

Period	Amount Collected	Amount Banked	Cashier banking's	Under banking
13th April to 30 April	5,869,960	1,334,350	2,370,450	2,165,160
1st to 31st May 2015	18,508,770	4,947,820	2,848,930	10,712,020
1st to 30 June 2015	19,759,040	4,403,978	5,101,490	10,253,572
Total	44,137,770	10,686,148	10,320,870	23,130,752

The confidentiality and integrity of County revenue data may not be assured. As a result, revenue collected may be utilized for unauthorized transactions before it is accounted for in the County revenue fund. The County Government may not effectively have monitored revenue collected due to lack of proper audit trail.

16.2 Under Collection of Budgeted Revenue

During the financial year 2014/15, the County had budgeted to collect a total revenue of Kshs.1,500,000,000 from the local source. However a total of Kshs.970,903,407 was collected thereby achieving only 65% as follows:

Revenue Source	Budget	Collection	%Under collection
Market fees	113,244,059	86,403,883	-23%
Parking fees	77,729,500	75,961,631	-2%
Bus Park	120,670,090	107,734,460	-11%
Rents	33,683,640	30,928,488	-8%
Land Rates	171,904,848	128,216,690	-25%
Single Business Permits	71,501,918	98,629,242	138%
Building plans	53,537,361	19,937,297	-63%
Liquor licensing	-	-	-
Sign Board promotion	67,209,213	56,297,363	-16%
Public Health and Others	-	3,049,000	-
Others	35,352,337	60,364,784	171%
Health	719,808,508	295,975,239	-58%
Agriculture	27,038,475	6,083,000	-78%
Commerce, Trade & Tourism	2,462,278	1,171,310	-52%
Industrialization/Cooperatives	1,413,925	147,020	-90%
Education, Sports, Social Services	4,443,848	-	-
Physical Planning/Public works	-	-	-
Total	1,500,000,000	970,903,407	65%

The management did not provide explanation for under-performance of revenue collection. The under collection could be a manifestation of revenue leakage due to possible weaknesses in collection and recording of revenue and poor revenue control systems. These may negatively affect delivery of goods and services and planned programs to the detriment of the residents of Kisumu County.

16.3 CRF and Commercial Bank Accounts not Configured in IFMIS

Review of the Consolidated Revenue Fund (CRF) and Commercial banks revealed that the accounts have not been configured in IFMIS. They were recorded manually as shown below:

Bank/Branch	Account Name	Account Number
Kenya Commercial Bank	County Assembly Imprest Account	1142204197
Kenya Commercial Bank	County Imprest Account	1142145549
Kenya Commercial Bank	Revenue Collection	1141991705
Kenya Commercial Bank	Health Revenue Fund	1155423712
Family Bank	Salaries	25000025445
Family Bank	Operations	25000029517
Cooperative Bank	Emergency Bank	01141613464700
Kenya Commercial Bank	Water Reserve Fund	1147502013

The County was not able to post into the system transactions related to these accounts which may lead to possible loss of funds.

17.0 Staff Remuneration/Salaries and Wages

17.1 Human Resource and Payroll

The County maintains a spreadsheet for nurses who are under the Economic Stimulus Programs (ESP). Analysis of the payrolls revealed the following;

- i. There are 46 employees who are still in employment although they have attained the mandatory retirement age of 60 years, which is contrary to Government Regulations.
- ii. Under the government regulations, an employee qualifies to be pensionable after serving for at least 10 years. The following three employees were hired under permanent and pensionable terms yet they had less than ten years to attain the mandatory retirement age of 60 years and were therefore not qualified to be under pensionable terms of engagement.

PF No	Name	Birth Date	Date Hired	Age upon employment
20120007249	Nelco Masanya Sagwe	8/10/1960	1/1/2012	51.43
20100004760	Israel Opana Olik	11/15/1957	6/16/2010	52.62
2010131382	Thomas Odera Ogayo	7/1/1956	12/28/2010	54.53

- iii. The following two employees were sharing a bank account without the necessary authorization letters;

PF No	Name	Agent Type	Agent Code	Branch Code	Account Number
1989102033	Ngetich Peter Kiprono	307	99	92	100002004
2010131382	Ogayo Thomas Odera	307	99	92	100002004

- iv. A comparison of the gross earnings paid to employees in the system of Kshs.2,707,747,918 against the amount disclosed in the financial statements of Ksh.3,112,782,517 as compensation of employees revealed a difference of Kshs.405,034,599. This difference was not explained.
- v. Analysis of the payroll revealed that 35 officers were paid leave allowance more than once during the year under review totalling Kshs.1,639,748.
- vi. Analysis of the payroll revealed that the Speaker of Kisumu County Assembly has been paid a monthly special duty allowance of Kshs.26,000, which is contrary to SRC circular ref. No SRC/TS/CGOVT/3/ 16 dated 27 November 2013. During the year 2014/2015, the Speaker had been paid a total of Kshs.494,000, which should be recovered.
- vii. 12 officers were paid salary arrears of Kshs.13,644,184 for different earnings and allowances. Examination of their personal files did not indicate the reasons

for the arrears and also the relevant Pay Change Advices (PCA) were not availed for our scrutiny.

The County Government may be making irregular payments to its employees. The Human Resource database may have names of employees who have retired and may not be rendering any services to the County.

17.2 County Human Resource Manual

The County Government of Kisumu had not approved and adopted the final draft of the County Human Resource Manual prepared by the Kisumu County Public Service Board as at 30 June 2015.

17.3 New Officers

Examination of payrolls and other records revealed that the County recruited ward administrators, drivers, and other officers during the year. However, the following issues were noted.

- i. Mr. Solomon Ogire Abongo, was appointed as a Receptionist/Protocol (Public Relations Assistant III) - Job Group H on a permanent and pensionable terms. An audit review of the officer's qualifications revealed that the officer is a holder of KCSE certificate with mean grade C (Plain) and a certificate of skill upgrading (Basic) in carpentry and joinery which were not the required qualifications for the position which require diploma in social sciences as per requirement.
- ii. Mr. Joshua Ngesa Anyango was appointed as a ward administrator Job Group N by the Kisumu County Public Service Board on permanent and pensionable terms. An audit review of the officer's qualifications revealed that the officer is a holder of Bachelor of Science degree (food science and technology) instead of degree in Social Sciences as per the requirement.
- iii. Mr. Joel Migwa Olwalo was appointed as a ward administrator Job Group N by the Kisumu County Public Service Board on permanent and pensionable terms. An audit review of the officer's qualifications revealed that he is a holder of a Diploma in sales and marketing instead of degree in Social Sciences as per the requirement.
- iv. Mr. Luke Agango Ochieng was appointed as a ward administrator Job Group N by the Kisumu County Public Service Board on permanent and pensionable terms. An audit review of the officer's qualifications revealed that he is a holder of a Bachelor of Science degree in agriculture instead of degree in social sciences as per the requirement.

17.4 Overpayment of Salary

Mr. Maurice Mbom Oricho, was appointed on 7 October 2014 by the Kisumu County as a Sub County Administrator, Job Group Q and took the offer on 9 October, 2014 although he indicated that he will be ready to take up the position after 30 days to allow him clear and hand-over at his previous station. However, payment voucher availed for audit revealed that the officer was paid an amount of Kshs.182,555, being the net arrears for two (2) months' salary (October and November 2014) as computed below:

	October 2014 (Kshs.)	November 2014 (Kshs.)	Total (Kshs.)
Basic Salary	62,823.60	89,748	152,571
House Allowance	28,000	40,000	68,000
Commuter Allowance	9,800	14,000	23,800
Gross Earnings	100,623.60	143,748	244,371.60
PAYE	(24,119.48)	(37,056.80)	(61,176.28)
NHIF	(320/00)	(320/00)	(640)
Net Pay	76,184.12	106,371.20	182,555.32

The officer was overpaid by Kshs.100,623.60 being the gross salary for October 2014 based on the fact that he had indicated in the acceptance letter that he would only take up the appointment after clearing and handing over from his former work station. The officer may also have been overpaid November 2014 salary by an unquantified amount since it was not possible to ascertain when he reported on duty. It was also not possible to ascertain whether the officer was actually cleared and released by the former employer, the Teachers Service Commission.

In view of the above, the system and policies on Human Resource need review for strengthening in order to achieve sound internal controls in particular payroll management.

18.0 Imprest Management

18.1 Operations and Imprests Account outside the IFMIS System

- i. The County Government operates an operations and imprest account No. 1142145549 at Kenya Commercial Bank. During the financial year Kshs.832,287,424 was paid from this account. However, the respective payments were not passed through the IFMIS system thus exceeding the budget lines.
- ii. Imprest warrants totalling Kshs.1,313,225 for the Department of Tourism, Trade and Heritage for the 2014/2015 financial year were paid outside the IFMIS and the imprests were not supported by verifiable documents such as bus tickets, work tickets, schedules, reports among others.
- iii. In addition, examination of the sampled payment vouchers and imprest warrants paid / issued from the operations and imprest account revealed that payments were not adequately supported.

18.2 Outstanding Imprests

Examination of IFMIS reports on outstanding imprest revealed that various Departments within the County had not surrendered imprest amounting to Kshs.996,092,407 as at 30 June 2015. Also the County Treasury withdrew cash totalling Kshs.17,875,870 from the operations account number 1142145549 at Kenya Commercial Bank which was subsequently issued to officers in form of imprests. However, these imprests had not been surrendered and in some cases, surrender documents were found to be inadequate. Further, included in un-surrendered imprests is an amount of Kshs.3,071,600 paid to MCAs in form of per diem for attending budget discussion meetings and other undisclosed activities from the budgetary allocations of

the County Assembly. However, It has not been explained why these allowances were met from the County Assembly vote. In addition there was no proof that six MCAs acknowledged receipt of per-diems amounting to Kshs.302,400.

19.0 Bank and Cash

19.1 Failure to close the Provincial General Hospital Health Management Account

Information available indicate that the provincial general hospital health management account with credit balances of Kshs.97,819,309.37 and Kshs.27,715,121 as at 30 June 2014 and 30 June 2015 respectively had not been closed as directed by the Accountant General of the National Treasury vide circular Ref: AG.3/088/Vol.6/ (73) dated 9 June, 2014 and the then acting Chief Officer and County Director of Health vide circular ACC/Vol.1./ (97) dated 01 July, 2014 . The circulars required that the bank accounts be closed and the balances be transferred to the County revenue account.

19.2 Failure to close the Kisumu District Health Management Board Account

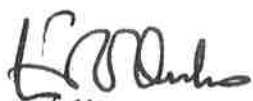
Information available indicated that the Kisumu District Health Management Account with credit balance of 12,310,701 as at 30 June 2015 had not been closed as directed by the Accountant General of the National Treasury and the then acting Chief Officer and County Director of Health vide circular ACC/Vol.1./ (97) dated 01 July, 2014 which required that the account be closed and the balance be transferred to the County Revenue Account.

19.3 Failure to release Kshs.246,555,111 Conditional Allocation to Kisumu Level 5 Hospital

Included in the transfers from National Treasury figure of Kshs.5,205,576,886 for the year ended 30 June 2015 is Kshs.248,505,726 in respect of Kisumu Level 5 hospital. The County Government had only released amounts totalling Kshs.189,570,833 leaving a balance of Kshs.58,934,493 still unreleased to the hospital. The Hospital is unable to fully implement its planned activities therefore denying service delivery to all those who may require services from the facility.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.



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

Nairobi

27 September 2016