



Kisumu County's  
**AUDITOR GENERAL REPORT**

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**2016/2017**

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*Simplified version*





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# BACKGROUND 1

## 1.1 Our History, Scope and Partnerships in Advocacy

The Kenya Human Rights Commission (KHRC) is a premier and flagship Non-Governmental Organization (NGO) in Africa that was established and incorporated on 9<sup>th</sup> April 1992 by Kenyans exiled in the United States of America (USA) and later registered in Kenya on 20<sup>th</sup> of January 1994. KHRC founders are among the foremost leaders and activists in struggles for human rights, good governance and democratic reforms in Kenya and beyond. Our **mandate** is to enhance a human rights-centred governance at all levels, while our **vision** is to secure human rights states and societies and our **Mission** is to foster human rights, democratic values, human dignity and social justice<sup>1</sup>. This mandate and vision are executed under four independent strategic objectives and thematic programmes; Economic and Social Justice (ESJ); Transformative Justice (TJ); Inclusion and Identity (I&I) and Institutional Support and Development (ISD). All these programmes work in synergy. The KHRC works with grassroots based organizations including over thirty Human Rights Networks (HURINETS) across the counties; partners with national level - state and non-state actors and coalitions; and with sub-regional, regional and international human rights organizations and networks.

## 1.2 Our Interventions against Corruption and Related Injustices in the Society

We have identified corruption at both the national level and in devolved governance as one of the issues for policy and political advocacy. Corruption has established bad governance characterized by the lack of transparency, accountability, public participation, an enabling legal/judicial framework in the conduct of public affairs, particularly in public procurement. This has institutionalized impunity allowing systemic abuse and ineffective use of public resources. As an attempt to disrupt the corrupt system, the KHRC has conducted anti-corruption researches/studies which has generated evidence for advocacy at both the national and county levels of governance. We also and actively convene anti-corruption dialogues, through the annual “People’s Anti-corruption Summits” with both political actors and the public. Moreover and through the above-mentioned HURINETS at the community level, we create citizens’ awareness on the prevalence of corruption and increase their capacity to effectively engage and demand for prudence and probity in the conduct of governments’ businesses at both the national and devolved levels.

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<sup>1</sup> KHRC strategic plan

### 1.3 The Initiative to Simplify and Disseminate the Auditor Generals Reports

The Constitution provides that the Office of the Auditor General (OAG) has the primary oversight role of assuring accountability within the three arms of Government, Independent Commissions, Independent Offices and County Government entities. Specifically, the OAG has the mandate to audit and report to stakeholders on the fairness, effectiveness and lawfulness in the management of public resources. Vigilant citizens can then use these audit reports to oversight both county and national governments. Related to our interventions against Corruption, we are enhancing public understanding of the Auditor Generals' report around the select counties (Kwale, Wajir, Kisumu, Makueni and Kakamega), with the view to empowering Human Rights Networks to take appropriate actions on the implementation of the report's recommendations. It's in this regard that the KHRC is developing simplified version of these reports and unpacking manifestation of corruption, particularly in county governance. The key objective of this work is to deepen citizens' understanding of the auditor general's reports; unearth corruption in public procurement process, so that they can politically organize and take appropriate actions aimed at promoting transparency, accountability and participation in devolved governance, and influence policy and legislative reforms at both the county and national levels.

### 1.4 Simplification of the Auditor General's report for Kisumu County

Although the OAG has produced both the county assembly and county executive audit reports annually, there has been minimal citizen utilization to demand for transparency and accountability from the county government of Kisumu. Part of the issue is that citizens in the county cannot easily access, read and understand the contents of the audit reports. The reports are mainly accessed on the website of the auditor general which is challenging for those without internet access and for those who do not understand how to access documents online. For those citizens who are able to access the reports, the language used in the reports is very technical making it difficult to understand. Accessing the documents online is also expensive to the common citizens. The reports are also quite lengthy making reading them difficult and time consuming. To empower citizens in Kisumu County to effectively access, read, understand and demand action from their County Government, the Kenya Human Rights Commission (KHRC) has developed this simplified version of the Auditor General's report, for the financial year 2016/2017. The report uses easy to read language and explains technical terms to allow the reader to fully understand the contents.

***No changes were made to the figures, meaning, conclusions and other relevant content found in the full version of the Auditor General's report.***

# REPORT ON THE COUNTY EXECUTIVE 2 OF KISUMU

## 2.1 Overview of audit issues in County Executive of Kisumu

	ISSUE	FINDINGS
2.1.1	Cash and cash equivalents a) Bank Balances	Accuracy and completeness of <b>Kshs.1,359,986,921</b> cannot be confirmed as fairly stated.
2.1.2	Accounts Receivable- Outstanding Imprests	County Executive was in breach of Section 93(4) and (5) of the Public Finance Management Act (County Regulations), 2015.
2.1.3	Accounts Payable- Deposits and Retentions	Balance of <b>Kshs.92,916,431</b> could not be confirmed as fairly stated.
2.1.4.	Receipts a) Revenue Collections b) Transfers from other Government Entities	No explanation for shortfall in collections Accuracy and completeness of <b>Kshs.704,333,216</b> could not be confirmed
2.1.5	Compensation of Employees	Validity and propriety of <b>Kshs.3,290,083,000</b> could not be confirmed
2.1.6	Use of goods and services	<b>Kshs.263,726,445</b> Lacking documentary evidence and other matters raised of concern
2.1.7	Transfer to other Government Units a) Unsupported payments	Propriety and validity of <b>Kshs.1,856,934,676</b> could not be confirmed
2.1.8	Other Grants and Transfers	Propriety and validity of <b>Kshs.188,164,116</b> could not be confirmed
2.1.9	Social Security Benefits	Propriety and validity of <b>Kshs.13,953,035</b> could not be confirmed
2.1.10	Acquisition of Assets a) Construction and Civil Works b) Purchase of ICT Equipment c) Purchase of Specialised Plant, Equipment and Machinery d) Research Studies and Design e) Purchase of Certified Seeds and Animal Breeding Stock	Propriety of <b>Kshs.469,024,307</b> cannot be confirmed. Propriety of <b>Kshs.17,217,065</b> could not be confirmed Propriety of <b>Kshs.11,961,489</b> could not be confirmed Propriety of <b>Kshs.15,186,753</b> could not be confirmed Propriety of <b>Kshs.3,402,000</b> for could not be confirmed
2.1.11	Other payments	Propriety of <b>Kshs.5,191,852</b> could not be confirmed.
2.1.12	Inaccuracies in the Financial Statements	
2.1.13	Governance Framework	County Executive management was in breach of the law.
2.1.14	Pending Bills	Propriety and accuracy of the pending bills figure of <b>Kshs.2,537,245,106</b> could not be confirmed
2.1.15	Fixed assets summary	Accuracy and validity of the fixed assets summary could not be confirmed



## 2.2 Adverse Opinion

The Auditor-General reviewed the following financial statements for the County Executive of Kisumu for year ended 30 June 2017:

- Statement of financial assets and liabilities
- Statement of receipts and payments
- Statement of cash flows
- Statement of appropriation: recurrent and development combined
- Summary of significant accounting policies
- Other explanatory information

### Key note

*Adverse opinion means that although the financial transactions are recorded and there are books of accounts, the Auditor General may be unsatisfied with the accuracy of significant amounts of expenditure.*

Upon completion of the audit review, the Auditor-General gave an adverse opinion finding that the financial statements do not present fairly the position of the County Executive of Kisumu. Also confirming that public money was not applied lawfully and in an effective way.

## 2.3 Why the County Executive received an Adverse Opinion

### 2.3.1 Cash and cash equivalents

#### a) Bank Balances

The financial statements show Kshs.1,359,986,921 as bank balances. The following issues were found upon audit review:

- i. The cashbooks for Kshs.1,359,986,921 was not provided for audit review
- ii. Bank reconciliation statements for 19 bank accounts totalling Kshs.1,359,280,204 were not provided for audit review
- iii. Bank statements for 6 bank accounts with balances totalling Kshs.19,887,952 were not provided for audit review
- iv. A report by the National Treasury on 13 November 2017 indicated that the County Executive operated 112 bank accounts in different banks but these were not disclosed in the financial statements
- v. Automatic bank reconciliations in IFMIS for all bank accounts were not carried out. Instead, bank reconciliations were prepared outside IFMIS
- vi. The KCB Imprest/Operations account was overdrawn and because of this there was an unnecessary interest charge of Kshs.4,350

### Key note

*Integrated Financial Management Information System (IFMIS) is an automated system that is used for public finance management and was first launched in Kenya on 2003. It interlinks planning, budgeting, expenditure management and control, accounting, audit and reporting.*

Therefore, the accuracy and completeness of **Kshs.1,359,986,921** cannot be confirmed as fairly stated.

### 2.3.2 Outstanding Imprests

#### Key note

*Imprest is a form of cash advance or a float for travel or to attend meetings which an Accounting Officer may authorise to be issued to government or county officers. The officers are expected to return or refund the money to ensure it is properly accounted for.*

The financial statements show Kshs.66,835,022 as outstanding imprests. The following issues were noted upon examination of the records:

- i. There were 11 officers holding imprests which were over Kshs.1,000,000 each all totalling Kshs.19,530,117
- ii. Several officers were issued with multiple imprests without having surrendered the previous ones totalling Kshs.3,159,880
- iii. There is no evidence that the balance of Kshs.66,835,022 had been surrendered and appropriately accounted for
- iv.

Therefore the County Executive was in breach of Section 93(4) and (5) of the Public Finance Management Act (County Regulations), 2015.

### 2.3.3 Deposits and Retentions

An amount of Kshs.92,916,431 for deposits and retentions appeared in the statement of financial assets and liabilities. However, no documentary evidence was provided to support this as required by the Public Sector Accounting Standards Boards.

Therefore, the balance of **Kshs.92,916,431** could not be confirmed as fairly stated.

### 2.3.4 Receipts

#### a) Revenue Collections

The County Executive was unable to collect Kshs.1,267,754,043 in the 23 revenue streams as projected. No explanation was provided for the material difference contrary to the requirements of Section 130 of the Public Finance Management (County Governments) Regulations, 2015 and the International Public Sector Accounting Standards (IPSAS) Cash Basis of Accounting Reporting Framework. Further, the county has not developed an updated valuation roll to establish its properties in the county.

#### b) Transfers from other Government Entities

Kshs.704,333,216 for transfers from other government entities appears in the financial statements. This includes grants to Level 5 Hospital of Kshs.351,445,087. However, hospital records revealed that only Kshs.205,595,356 was disbursed by the County Executive. There was therefore an unexplained difference of Kshs.145,849,731. Also, the Level 5 Hospitals pro-rata distribution of free maternity funds indicates that it should have received Kshs.116,550,000 from the scheme between 1 July 2013 and 20 June 2017 but only Kshs,90,140,000 had been reimbursed to the hospital leaving an unexplained difference of Kshs.26,410,000.

**Therefore, the accuracy and completeness of Kshs.704,333,216 could not be confirmed.**

### 2.3.5 Compensation of Employees

The financial statements show Kshs.3,290,083,000 for compensation of employees. A review of the supporting documentation revealed the following issues:

- i. The Integrated Personnel Payroll Data (IPPD) payroll system and manual payrolls showed a balance of Kshs.3,133,266,670 but the financial statements showed Kshs.3,290,083,000. Therefore, there was an unexplained difference of Kshs.156,816,330
- ii. A comparison of the current year balance and the previous year audited balance showed a decrease in basic salaries of permanent staff by Kshs.705,612,388, increase in basic wages of temporary staff by Kshs.456,342 and an increase in personal allowances paid as part of the salary by Kshs.845,346,160. Also noted was the fact that 167 new permanent employees joined the workforce that year. No explanation was given for this.
- iii. The wage bill constitutes 42% of the total receipts during the year. This is contrary to Section 107(2) of the Public Finance Management Regulation, 2015 which recommends a maximum of 35%

- iv. The payroll statistics revealed that 97% of the employees were from the dominant ethnic community of Kisumu. This is contrary to Section 7 (1) of the the National Cohesion and Integration Commission Act, 2008
- v. Documents to support the identification of vacancies, advertisement, shortlisting and interview minutes for the recruitments by the County Public Service Boards were not provided for audit review
- vi. Support documents for payments totalling Kshs.150,390,879 included in the total figure for compensation of employees were not provided for audit review.

Therefore, the validity and propriety of **Kshs.3,290,083,000** could not be confirmed.

### 2.3.6 Use of goods and services

Of Kshs.674,144,262 for Use of Goods and Services, Kshs.263,726,445 could not be accounted for as it was not supported by any documentary evidence as detailed below:

**Table 1: Use of Goods and Services items and amounts not supported**

Item	Amount in financial statement (Kshs.)	Amount not supported by any documentary evidence (Kshs.)
Utilities, supplies and services	56,857,063	16,494,345
Communication, supplies and services	6,094,920	4,006,245
Domestic travel and subsistence	73,994,193	19,921,055
Foreign travel and subsistence	7,999,121	2,472,461
Printing, advertising and information supplies and services	43,096,157	18,463,705
Rentals of produced assets	5,913,418	814,202
Training expenses	34,106,126	8,822,950
Hospitality supplies and services	34,050,784	8,781,695
Insurance costs	37,742,319	17,179,573
Specialised materials	135,287,014	8,983,909
Office and general supplies and services	35,054,191	13,751,938
Fuel, oil and lubricants	49,800,611	45,675,722
Other operating expenses	101,522,949	95,512,030

The following matters were further noted:

- i. The County Executive paid Kshs.14,592,453 to the Council of Governors contrary to Section 37 of the Inter-governmental Relations Act, 2012

- ii. The supply of various sports kits and tools for inter-county games held in Kiambu County from 14-21 August 2016 was awarded and Kshs.1,744,292 paid a supplier. There was no records of the beneficiaries of the kits
- iii. Kshs.2,685,476 was paid for consultancy services to develop a procurement policy on 17 October 2016
- iv. An amount of Kshs.21,801,137 relating to routine maintenance of vehicles and other transport equipment included payments totalling Kshs.3,168,800 to purchase motor vehicle spare parts. However, it was not possible to confirm that these items were received.

### 2.3.7 Transfer to other Government Units

#### a) Unsupported payments

Transfer to other government units amounting to Kshs.1,856,934,676 were made but Kshs.1,002,848,950 was not supported. The following issues were noted:

- i. A Kshs.312,884,011 transfer was supported with a Kenya Revenue Authority (KRA) demand letter. However, the payment voucher for the transaction was not provided for audit. Also, the expenditure was not recorded in the cashbook or in the expenditure ledger and bank statements
- ii. A transfer to the Jaramogi Oginga Odinga Teaching and Referral Hospital of Kshs.15,669,720 was made but the management of the Hospital indicated that the transfer was meant to be a refund of amounts advanced to the County Treasury and not a payment
- iii. Kshs.4,946,700 was indicated as disbursed to Kisumu East County Hospital but the bank statements and cashbooks of the Hospital did not show receipt of this money from the County Executive
- iv. Transfers were recorded at the point of issue as opposed to recording of corresponding payments indicating how the funds were utilised. Showing transfers as a payment item in the Statement of Receipts and Payments is misleading because there is no corresponding budget on the transfer to other government units as per the approved budget

**Therefore, the propriety and validity of Kshs.1,856,934,676 could not be confirmed.**

### 2.3.8 Other Grants and Transfers

Of the Kshs.243,891,506 in Other Grants and Transfers Kshs.58,164,116 was not supported. Also, Kshs.130,000,000 was transferred from the County Executive

recurrent account to the Education Fund account at KCB. However, the County Executive minutes constituting the Fund and gazetted Fund regulations were not provided for audit review. Also, the financial statements for the Fund were not prepared and provided for audit review contrary to Section 116(7) of the Public Finance Management Act, 2012.

**Therefore, the propriety and validity of Kshs.188,164,116 could not be confirmed.**

### 2.3.9 Social Security Benefits

The social security benefits amounted to Kshs.21,793,048 but payments totalling Kshs.13,953,035 were not supported.

**Therefore, the propriety and validity of Kshs.13,953,035 could not be confirmed.**

### 2.3.10 Acquisition of Assets

The acquisition of assets amount of Kshs. 1,559,967,496 revealed the following issues:

#### a) Construction of buildings

Kshs. 110,628,680 relates to construction of buildings however payments totalling Kshs.13,953,035 were not supported with documentary evidence.

**Therefore, the propriety and validity of Kshs.13,953,035 could not be confirmed.**

#### b) Construction and Civil Works

Of the Kshs.1,031,359,022 for construction and civil works, Kshs.469,024,307 was not supported with relevant documentary evidence. The following observations were made after a review of the records provided and physical verification of civil works was conducted:

**Table 2: Observations on Construction and Civil Works**

No	Project	Contract amount (Kshs.)	Observations
1	Rachilo-Oruga steel ring culvert construction	2,999,914	- The steel culvert had not been put in place but instead the contractor protected the existing concrete culverts - Contractor had been paid in full
2	Chief Odera steel ring culvert construction	2,999,869	- Steel culvert had not been erected - Contractor paid in full
3	Renovation of Mamboleo slaughterhouse	3,000,000	- Steel tank costing Kshs.840,200 had not been supplied - Contractor paid in full including retention monies

No	Project	Contract amount (Kshs.)	Observations
4	Perimeter wall at Mamboleo slaughterhouse construction	12,498,269	<ul style="list-style-type: none"> <li>- A quarter of the fence was constructed</li> <li>- Contractor paid Kshs.3,985,296</li> <li>- On site there was no evidence the project will proceed</li> </ul>
5	Supply and installation of solar street lights at various markets	2,998,600	<ul style="list-style-type: none"> <li>- No lights at Holo and Mamboleo market centres</li> <li>- Contractor paid in full</li> </ul>
6	Kere water pan construction	2,891,320	<ul style="list-style-type: none"> <li>- Cattle trough worth Kshs.216,820 not constructed as per specifications</li> <li>- Payment of Kshs.2,394,600 made</li> </ul>
7	Odoa water pan construction	5,700,000	<ul style="list-style-type: none"> <li>- GI flagged draw off pipe, communal drawing point, cattle trough and fencing were not constructed</li> <li>- Contractor paid in full</li> </ul>
8	Nanga Borehole construction	2,999,342	<ul style="list-style-type: none"> <li>- Pump malfunctioned and community not benefiting from the project</li> <li>- Contractor paid Kshs.1,843,042</li> </ul>
9	Korowe modern market construction	34,567,338	<ul style="list-style-type: none"> <li>- An ablution block costing Kshs.2,571,730 not constructed</li> <li>- Perimeter wall developed huge cracks and painting was not done</li> <li>- Contractor paid Kshs.713,141 more than contract sum</li> </ul>
10	Construction of 2 market shades at Sondu Market	3,054,665	<ul style="list-style-type: none"> <li>- One(1) shade was constructed</li> <li>- Contractor paid in full</li> </ul>
11	Nyangande community hall construction	2,490,578	<ul style="list-style-type: none"> <li>- Project stalled at third course and tracks on walls were visible</li> <li>- Contractor paid in full</li> </ul>
12	Kanyakwar perimeter wall fence construction	3,999,768	<ul style="list-style-type: none"> <li>- No wall was erected</li> <li>- Contractor paid in full</li> </ul>
13	Nyahera Resource Centre construction and Nyahera Community Hall	4,999,252 and 1,999,840	<ul style="list-style-type: none"> <li>- Partial payment of Kshs.2,178,712 to contractor for Resource Centre on 22 February 2017</li> <li>- Second contractor awarded to construct Nyahera Community Hall on 27 October 2016</li> <li>- Inspection revealed that there is no distinction between the hall and centre</li> <li>- Two contractors working on the same 1 story building</li> <li>- Paid works certified as complete but inspection revealed incomplete</li> <li>- Registered owner of land not disclosed thus unable to confirm ownership</li> </ul>

In addition to the above observations, the County Executive advertised for the renovation of classrooms at Okiro primary school which attracted 3 bids. The tender was awarded to the second lowest bidder against the recommendation of the evaluation committee. No explanation was provided for this. The contract was paid in full but a physical verification of the works revealed wrong specifications were used.

Therefore, the propriety of **Kshs.469,024,307** cannot be confirmed.

### c) Purchase of ICT Equipment

Of the Kshs.75,936,454 for the Purchase of ICT equipment, payments totalling Kshs.17,217,065 were not supported. The following issues were noted from the payments made:

- (i) A contract for the installation of an Enterprise Resource Planning (ERP) system was awarded at Kshs.165,346,516. The supplier was paid Kshs.33,069,303 for system analysis and process realignment which also included the supply of Microsoft dynamic NAV2017-50 virtual user licenses. However, the following issues were noted:
  - The tender closed on 10 February 2017 and notification of regrets were made on 13 February 2017.
  - A professional opinion by the Head of Procurement function was provided on 3 February 2017, before the procurement process started. The opinion included the choice of supplier, which was un-procedural.
  - The winning firm was selected on the basis that they had the highest score combining technical and financial evaluation. This was contrary to procurement laws which require that the highest combined score be used only where request for proposal method is used
  - Notification of the award was made on 20 March 2017 indicating that payments would be staggered over two financial years at Kshs.70,000,000 in 2016/2017 and Kshs.95,346,516 in 2017/2018
  - At the time of audit, the ERP system had not been installed
- (ii) The supply, delivery, installation, configuration and commissioning of bulk licenses and Microsoft products for 300 computer devices was awarded to a supplier at Kshs.13,920,000. The supplier was paid Kshs.7,920,000 during the year under review. However, physical verification revealed that Microsoft Inc. had withdrawn the licenses due to non-payment. This was a loss of funds already used.

Therefore, the propriety of **Kshs.17,217,065** could not be confirmed.



**d) Purchase of Specialised Plant, Equipment and Machinery**

Of the Kshs.81,353,162 for purchase of specialised plant, equipment and machinery, payments totalling Kshs.11,961,489 were not supported. Also, the supply of a drilling rig contract was awarded to a supplier for Kshs.59,122,815. The drilling rig was delivered but the County Executive does not have a logbook for it. The 3 component drilling rig, drilling rig tools, test pumping unit and truck are left idle in the yard due to a lack of skilled personnel to operate it. The number plates have not been fitted and the asset was not recorded in the fixed asset register.

Therefore, the propriety of **Kshs.11,961,489** could not be confirmed

**e) Research, Studies and Design**

Of the Kshs.95,326,615 for research, studies and design, payments totalling Kshs.15,186,753 were not supported. A review of the payments revealed the following:

- The contract to provide entrepreneurship skills training was awarded to a firm for Kshs.4,868,448. Out of the 4 suppliers who bid, 3 were declared unresponsive for not meeting the mandatory requirements. The tender should have been cancelled and repeated because of this
- Payments totalling Kshs.7,036,964 for supply of fishnets, fabrication of refuse skips and supply of fertilizer were included in this even though they are unrelated
- A payment of Kshs.3,497,335 for supply of pesticides was made but not included in the current years payments
- A contract for preparation of a GIS based valuation roll at Kshs.99,040,800 was signed. As at year end, Kshs.53,896,551 had been paid to the consultant. There was no evidence that the project was budgeted for

Therefore, the propriety of **Kshs.15,186,753** could not be confirmed.

**f) Purchase of Certified Seeds and Animal Breeding Stock**

Out of Kshs.7,666,800 paid for purchase of certified seeds and animal stock, payments totalling Kshs.3,402,000 were not supported. Also, a supplier was contracted to deliver tree seedlings at a sum of Kshs.1,019,396 on 9 December 2016. However, a review of the procurement documents indicate that the quotations were opened on 19 December 2016 yet notice of award is dated 9 December 2016. Evaluation of the bids is indicated to have been done on the 14 December 2016.

Therefore, the propriety of **Kshs.3,402,000** for could not be confirmed.

The following table lists the aforementioned payments in acquisition of assets Kshs.1,559,967,496 that were not supported:

**Table 3: Summary of above payments in acquisition of assets not supported**

Payment	Amount in financial statement (Kshs.)	Amount not supported (Kshs.)
Overhaul of Civil Works	2,732,861	2,662,718
Purchase of Vehicles and Other Transport Equipment	94,232,914	64,835,5162
Overhaul of vehicles	27,093,560	20,583,630
Purchase of office furniture and general equipment	30,092,859	10,006,560
Construction of buildings	110,628,680	13,953,035
Construction and civil works	1,031,359,022	469,024,307
Purchase of ICT equipment	75,936,454	17,217,065
Purchase of Specialised Plant, Equipment and Machinery	81,353,162	11,961,489
Research, Studies and Design	95,326,615	15,186,753
Purchase of Certified Seeds and Animal Breeding Stock	7,666,800	3,402,000

### 2.3.11 Other payments

The other payments amounted to Kshs.119,772,979. The following issues were found:

- A supplier was contracted to supply non-pharmaceutical products on 25 October 2016 at Kshs.1,469,827. The local purchase order was issued on 20 October even before notice of award dated 25 October was issued.
- An advocate was hired to provide legal representation on various cases against the County Executive. An amount of Kshs.1,796,551 was paid based on invoices provided. However, no procurement documents were provided to show how the advocate was hired and the terms of payment

#### Key note

*Local purchase order (LPO) is a document created by the buyer to the seller to purchase a product*

- A media firm was contracted to provide media coverage and related activities. A sum of Kshs.1,925,474 was paid to the firm. A review of the procurement documents show that the notice of the award was not issued before the local service order was issued.

**Key note**  
*Local Service Order (LSO)* is used to control the purchasing of services from external suppliers. It is a document issued by a buyer to a seller indicating types, quantities and agreed prices for services.

Therefore, the propriety of **Kshs.5,191,852** could not be confirmed.

### 2.3.12 Inaccuracies in the Financial Statements

The following issues were found in the financial statements:

- a) The approved budget estimate for Other Grants and Transfers was Kshs.315,909,179. However, the Summary of Statements of Appropriations- Recurrent and Development Combined and the individual summary statements of recurrent and development indicated zero. The accuracy of the statement is therefore not confirmed
- b) Included in the payments disclosed as construction and civil works of Kshs.1,031,359,022 are payments amounting to Kshs.67,566,365 for construction of access roads. Roads need to be disclosed separately as construction of roads according to approved budget estimates

### 2.3.13 Governance Framework

The following issues were observed:

- a) An audit committee has not been established contrary to Section 155 of the Public Finance Management Act, 2012 and Section 167(1) of the Public Finance Management (County Government) Regulations, 2015.
- b) The internal audit unit is understaffed with 5 officers who cannot adequately carry out their oversight roles. There was no report of purchase goods, services and works, and acquisition of assets. Procurement of goods, services and works takes a large percentage but internal controls have not been evaluated and controlled by the unit. The unit also operated without an approved annual audit activity plan

- c) The internal audit unit carried out 8 audit exercises and prepared internal audit reports which indicated serious issues of misappropriation of public funds and losses that required urgent management action. However, the lack of an audit committee significantly disabled the work of the unit and no action was taken on the reports.

**Therefore, the County Executive management was in breach of the law.**

### 2.3.14 Pending Bills

The pending bills balance was indicated as Kshs.2,537,245,107 but a detailed listing of the pending bills was not included as an annexure to the financial statements as required by the Public Sector Accounting Standards Board. A review of the pending bills schedule and files provided for review revealed the following issues:

- Pending bills included People With Disabilities fund of Kshs.225,000,000. It was not possible to establish whether there was a contractual obligation to pay this amount or if this was a provision
- The pending bills included Kshs.28,800,000 for a County Development Fund. This is not a pending bill since there is no contractual agreement to set aside funds
- Files for bills amounting to Kshs.689,359,984 were sampled and these were not availed for audit review. Therefore it could not be determined whether these were genuine bills
- Management did not provide an explanation for how the bills were to be settled given that the bank balance at year end totalled Kshs.1,359,986,921 below the pending bills figure
- In April and May 2017, a medial consultancy firm was contracted to publish a county newspaper (Luo and English) at Kshs.5,916,000. Management did not explain what value the newspaper would bring the community given that there were higher priority projects not carried out. Out of the Kshs.5,916,000 contract, Kshs.2,850,000 was included in pending bills.

**Therefore, the propriety and accuracy of the pending bills figure of Kshs.2,537,245,106 could not be confirmed.**

### 2.3.15 Fixed assets summary

A review of the schedule of assets provided for audit revealed the following issues:

- a) The total cost of assets since the year 2013/2014 to 2016/2017 amounts to Kshs.2,807,535,126. This may not be conclusive since the county has invested Kshs.4,472,628,536 since 2013/2014 as cumulative acquisition of assets

- b) The schedule does not include heavy equipment and machinery
- c) The schedule does not include assets taken over from the defunct local government

**The county does not have a comprehensive asset register as required by section 136 of the Public Finance Management Act (County Regulations) 2015. Therefore, the accuracy and validity of the fixed assets summary could not be confirmed.**

## 2.4 Other matters relating to the County Executive Audit

### 2.4.1 Budget Absorption- Recurrent expenditure

The approved recurrent expenditure for the County Executive was Kshs.5,925,351,185 and Kshs.5,898,306,895 was spent as indicated below.

**Table 4: Recurrent expenditure absorption**

Department	Budget (Kshs.)	Actual expenditure (Kshs.)	Absorption rate (%)
Office of the Governor and County Administration	417,851,093	416,121,500	100
Finance and Economic Planning	965,618,590	964,873,089	100
Agriculture, Livestock & Fisheries	317,503,424	313,972,333	99
Education, Youth, Culture and Social Services	378,446,655	375,427,043	99
Tourism ,Trade & Heritage	73,756,662	72,760,110	99
Lands, Housing and Physical Planning	30,044,022	28,781,699	96
Roads, Transport and Public Works	268,703,173	265,053,273	99
Health Services	2,388,398,993	2,386,618,856	100
Water, Environment and Natural Resources	152,378,213	150,277,095	99
Industrialisation, Enterprise Development, Energy and Mining	110,930,944	108,735,871	98
Communication and IT	65,115,352	64,530,150	99
City Of Kisumu	709,455,157	705,199,413	99
County Public Service Board	47,148,907	45,956,463	97
<b>Total</b>	<b>5,925,351,185</b>	<b>5,898,306,895</b>	<b>100</b>

### 2.4.2 Budget Absorption- Development expenditure

The approved development budget for the County Executive was Kshs.3,164,597,404 and Kshs.1,868,280,073 was spent as indicated below.

**Table 5: Development budget absorption**

Department	Budget (Kshs.)	Actual expenditure (Kshs.)	Absorption rate (%)
Office of the Governor and County Administration	127,500,000	124,129,264	97
Finance and Economic Planning	1,499,989,852	652,192,329	43
Agriculture, Livestock & Fisheries	138,540,986	86,911,977	63
Education, Youth, Culture and Social Services	47,795,773	51,296,298	107
Tourism ,Trade & Heritage	79,107,167	64,042,002	81
Lands, Housing and Physical Planning	156,395,240	65,640,527	42
Roads, Transport and Public Works	628,634,862	427,720,994	68
Health Services	96,450,633	30,555,316	32
Water, Environment and Natural Resources	118,034,019	116,002,835	98
Industrialisation, Enterprise Development, Energy and Mining	135,982,248	117,941,570	87
Communication and IT	119,816,624	124,316,694	104
City Of Kisumu	16,350,000	7,530,267	46
<b>Total</b>	<b>3,164,597,404</b>	<b>1,868,280,073</b>	<b>59</b>

The roads project implementation status indicated that roads amounting to Kshs.170,218,286 had not even started even though included in the budget. There is no evidence that the funds allocated for these projects were re-voted at the end of the financial year to ensure implementation in the following year as required by law.

### 2.4.3 Analysis of Revenue Collection

The County Executive had projected to collect Kshs.2,271,797,949 in local revenue but only Kshs.1,004,043,906 was collected. This meant that there was an underperformance of 55% as shown below.

**Table 6: Analysis of revenue collection**

Item	Actuals (Kshs.)	Current year budget (Kshs.)	Variance (Kshs.)
<b>Tax Receipts</b>			
Land Rates	144,518,414	717,229,233	572,710,819
<b>Other receipts</b>			
Rent	44,127,419	40,000,000	-4,127,419
Market fees	74,838,150	113,000,000	38,161,850
Park fees	206,888,650	228,087,546	21,198,896
Signboard and advertisement	60,772,871	100,000,000	39,227,129
Boda boda self-regulating fees	-	25,000,000	25,000,000

Trade license fees	96,901,530	115,000,000	18,098,470
Liquor license fees	10,912,848	30,570,293	19,657,445
Sundry revenue	17,799,511	111,597,354	93,797,843
Public health inspection fees	9,501,800	14,000,000	4,498,200
Building plan approval	42,727,457	52,000,000	9,272,543
Health	236,963,858	315,280,143	78,316,285
Lands, Housing and Physical Planning	3,358,413	20,000,000	16,641,586
Agriculture, Livestock & Fisheries	16,215,232	20,000,000	3,784,768
Industrialisation/ cooperative levies	113,650	1,500,000	1,386,350
Education. Sports and social services	7,210,958	5,000,000	2,210,958
Roads, Transport and Public Works	-	60,000,000	60,000,000
Commerce, Trade and Tourism	1,600,760	2,400,000	799,240
Environment	1,47,450	1,200,000	-279,450
Water	5,586,980	36,000,000	30,413,020
Green Energy	-	5,000,000	5,000,000
Other bulk revenue	22,460,955	-	-22,460,955
Energy and mining	65,000	2,500,000	2,435,000
Adjustments	-	256,433,380	256,433,380
<b>Total- Other receipts</b>	<b>859,525,492</b>	<b>1,554,568,716</b>	<b>659,043,224</b>
<b>Total- Local receipts</b>	<b>1,004,043,906</b>	<b>2,271,797,949</b>	<b>1,267,754,043</b>

There was a shortfall of Kshs.1,267,754,043. Also, there was an amount of Kshs.256,433,380 indicated as adjustments in the budget but a breakdown was not provided

# REPORT ON COUNTY ASSEMBLY OF **3** KISUMU

## 3.1 Overview of audit issues in County Assembly of Kisumu

ISSUE	FINDINGS
3.1.1. Inaccuracies in the Financial Statements	Accuracy and completeness of the Summary Statement of Appropriation cannot be confirmed and the accuracy of the financial statements could not be confirmed.
3.1.2. Cash and Cash Equivalents	
a) Bank Balances	Kshs,1,113,935 being the bank balance could not be confirmed as fairly stated.
a) Accounts receivables-outstanding imprests	Outstanding imprest nil balance could not be confirmed as fairly stated.
3.1.3. Car loan and mortgage fund statements	In the absence of separate financial statements and the risk associated with failing to provide joint mortgage ownership, it is not possible to confirm the validity and status of the Fund.
3.1.4. Compensation of employees	Anomalies with compensation of employees amounting to Kshs.320,098,314
a) Unsupported payments	
b) Double payment of sitting allowances	Correctness and validity of the Kshs.648,900 paid could not be confirmed
c) Irregular payment of extraneous and honorarium allowances	Propriety and validity of the Kshs.3,785,165 paid could not be confirmed.
d) Unauthorised sittings outside the County Assembly premises	Propriety and validity of Kshs.5,450,112 paid could not be confirmed
e) Unstructured County Assembly Service Board	Various issues revealed upon review of personnel files
3.1.5. Acquisition of assets	Propriety and validity of Kshs.14,605,000 spent could not be confirmed.



ISSUE	FINDINGS
3.1.6. Use of goods and services	
a) Procurement of training services through request for quotations	Management was in breach of Section 91(3) of the Public Procurement and Assets Disposal Act, 2015
b) Training on Electoral Laws and Systems Established by the Constitution of Kenya, 2010 held in Arusha, Tanzania	County Assembly was in breach of the law and the propriety of <b>Kshs.4,200,291</b> could not be confirmed.
c) Payment of insurance policy for MCAs and staff	Propriety and validity of <b>Kshs.22,965,709</b> spent could not be confirmed.
d) Misclassification of expenditure	Accuracy of the financial statements could not be confirmed.
e) Understatement of fuel, oil and lubricants	Accuracy of the financial statements could not be confirmed.
f) Unsupported payment to the former Speaker	Validity and propriety of <b>Kshs.4,146,780</b> paid could not be confirmed
g) Irregular procurement of foreign travel services	Validity and propriety of <b>Kshs.9,742,800</b> could not be confirmed.
h) Variances between support schedule figures and financial statement balances	Accuracy and validity of <b>Kshs. 169,898,269</b> in the financial statements could not be confirmed
i) Unsupported payments	Accuracy and validity of <b>Kshs. 65,971,504</b> could not be confirmed.
j) Rentals of produced assets	Propriety and validity of <b>Kshs.63,000,000</b> incurred could not be confirmed.
k) Related party transaction	Accuracy and validity of <b>Kshs.86,783,322</b> could not be confirmed.
l) Irregular procurement of Tax consultancy service provider	Validity and propriety of <b>Kshs.13,084,000</b> and <b>Kshs.5,000,000</b> paid could not be confirmed.
m) Consultant for the preparation of financial statements	Validity and propriety of <b>Kshs.480,000</b> paid could not be confirmed
n) Irregular procurement of sports items	Management was in breach of regulations that prohibit payment of suppliers by cash. Also, the validity and propriety of <b>Kshs.1,618,000</b> paid could not be confirmed

	ISSUE	FINDINGS
3.1.7.	Pending bills	County Assembly was in breach of the law.
3.1.8.	Governance framework	County Assembly was in breach of the law.
3.1.9.	Integrated Financial Management Information System (IFMIS)	Propriety of payments made outside IFMIS cannot be confirmed
3.1.10	Fixed assets summary	County Assembly was in breach of the law.

### 3.2 Adverse Opinion

The Auditor-General audited the following Financial Statements of the County Assembly of Kisumu as at 30 June 2017:

- Statement of financial assets and liabilities
- Statement of receipts and payments
- Statement of cash flows
- Statement of comparison of budget and actual amounts: recurrent and development combined
- Summary of significant accounting policies
- Other explanatory information

#### Key note

*Adverse opinion* means that although the financial transactions are recorded and there are books of accounts, the Auditor-General may be unsatisfied with the accuracy of significant amounts of expenditure.

Upon completion of the audit, the Auditor-General gave an adverse opinion finding that the financial statements do not present fairly the position of the County Assembly of Kisumu. Also, confirming that public money was not applied lawfully and in an effective way.

### 3.3 Why the County Assembly received an Adverse Opinion

#### 3.3.1 Inaccuracies in the Financial Statements

##### a) The Summary Statement of Appropriation: Recurrent

The Summary Statement of Appropriation reflects total recurrent payments of Kshs.654,429,905 which includes Kshs.14,605,000 in payments for Acquisition of assets. Recurrent payments are payments which do not result in the creation or acquisition of assets. Therefore, they should have been reflected in a separate statement for Development expenditure. Also, the actual receipts are reflected as Kshs.654,429,905 while the Statement of Receipts and Payments shows Kshs.654,621,594. There is therefore a difference of Kshs.191,689 which was unexplained.

## b) Structure of the Financial Statements

The following inaccuracies were noted from a review of the statements:

- i. The table of contents does not include key County Assembly information and management as per requirements of the Public Sector Accounting Standards Board
- ii. The sum of total receipts is missing for the current and previous year
- iii. The net cash flows from operating activities for year 2016/2017 in the statement of cash flow is incorrect as it should have been Kshs.14,796,689 and not Kshs.15,718,935
- iv. The currency is omitted in the Statement of Appropriation
- v. A trial balance was not maintained to support the figures in the financial statements

**Therefore, accuracy and completeness of the Summary Statement of Appropriation cannot be confirmed and the accuracy of the Financial Statements could not be confirmed.**

### 3.3.2 Cash and Cash Equivalents

#### a) Bank Balances

The financial statements show Kshs,1,113,935 as bank balances. The following issues were noted:

- i. The bank statements were used to update the cash books
- ii. The Kenya Commercial Bank (KCB) account cashbooks showed that Kshs.175,750,929 in cash withdrawals were made to make payments to suppliers, staff and Members of County Assembly (MCAs). This is in breach of Section 83(1) of the Public Finance Management (County Governments) Regulations, 2015 that restrict cash payments to suppliers.
- iii. The Integrated Financial Management Information System (IFMIS) cashbooks for the Central Bank of Kenya (CBK) account were not provided for audit review.

#### Key note

*Integrated Financial Management Information System (IFMIS) is an automated system that is used for public finance management and was first launched in Kenya on 2003. It interlinks planning, budgeting, expenditure management and control, accounting, audit and reporting.*

- iv. The bank reconciliation statement for the CBK recurrent account was not accurately prepared in that the unrepresented cheques were reported as Kshs.45,235,702 while recasting of the recorded cheques revealed a total of Kshs.39,976,702. The unrepresented cheques were thus overstated by Kshs.5,259,000

#### Key note

*Unpresented cheques* are cheques which have been written but have not been paid by the bank from where it was drawn

*Recasting* is the method through which you are allowed to adjust/restate your financials to reflect their true statement

*Bank reconciliation statement* is a statement which allows you to compare the bank records with your own accounting records

- v. The bank reconciliation statement for KCB revealed that unpresented cheques were inaccurately stated at Kshs.19,529,284 but a recasting of the cheques revealed a total of Kshs.19,502,138. The unpresented cheques were thus overstated by Kshs.27,146. Also, a cheque to a supplier was valued at Kshs.50,000 but posted as Kshs.501,000 in the reconciliation statement. Further, the KCB operations cashbook was overdrawn during the month of December 2016 thus reporting a debit balance of Kshs.6,114.
- vi. Bank statements reviewed showed a cash payment of Kshs.6,280,901 referenced as being for foreign travel. However, the payment was not included in the cashbooks and the payment schedules provided for audit review.
- vii. Payment schedules provided for audit show payments made to an insurance company of Kshs.203,451 was posted twice but in the cashbook and bank statement the posting appears once.

Therefore, **Kshs,1,113,935** being the bank balance could not be confirmed as fairly stated.

#### b) Outstanding imprests

The statement of financial assets reflected nil balances for outstanding imprests.

#### Key note

*Imprest* means a form of cash advance or a float for travel or to attend meetings which an Accounting Officer may authorise to be issued to government or county officers. The officers are expected to return or refund the money to ensure it is properly accounted for.

However, from an examination of the records supporting imprests issued during the year, the following issues were noted:

- i. Two (2) imprests of Kshs.705,266 and Kshs.479,548 were recorded in the cashbooks as payments and the same were reported as payments in the cashbooks. However, they were not recorded in the imprest register
- ii. The manual imprest register as at 30 June 2017 showed outstanding imprests of Kshs.32,829,951 which is different to the IFMIS imprest report for the same date of Kshs.40,877,030. Also, a number of MCAs whose terms of office ended in 2017 held outstanding imprests amounting to Kshs.9,825,273 with no proof that these were accounted for
- iii. Multiple imprests were issued to various officers during the year under review before the previous ones had been surrendered which is in violation of Section 93(4) of the Public Finance Management (County Governments) Regulations, 2015.
- iv. An imprest of Kshs.564,385 was issued according to the imprest report for the year under review. However, there is no record to show who received it and where it was controlled.
- v. Imprests issued to various officers and MCAs during the year totalling Kshs.3,080,179 were expensed directly as opposed to the actual surrender documents being used to update the expenditure records
- vi. An office float for the County Assembly Service Board Members for October and November 2016 amounting to Kshs.1,160,000 was withdrawn and paid to 4 of its members. This was not surrendered or accounted for.

**Therefore, the outstanding imprest nil balance could not be confirmed as fairly stated.**

### 3.3.3 Car loan and mortgage fund statements

The car loan and mortgage scheme is governed by the County Car Loan Fund Scheme and County Mortgage Scheme Fund Regulations, 2014. The regulations provide guidelines on the administration of the Fund with Kshs.250,000,000 having been provided as seed capital. The following issues were observed in the administration of the Fund:

- i) The County Assembly did not prepare separate financial statements for its car loans and mortgages fund as required by Section 167(1)-(3) of the Public Finance Management Act, 2012.
- ii) The County Assembly management did not provide for audit review documents such as bank statements, contract documents, loan status reports as well as signatories to bank accounts

- iii) The fringe benefit taxes applicable to these loans and payable by the employer were not calculated as required by the Income Tax Act.
- iv) In the event of default in payment of the loans, the County Assembly is at risk of loss because the cars and land parcels were not jointly registered as owned by the County Assembly and the respective MCAs. This is important considering that the loans should have been repaid before the expiry of the term of the County Assembly and before the General Election of August 2017

**Therefore, in the absence of separate financial statements and the risk associated with failing to provide joint mortgage ownership, it is not possible to confirm the validity and status of the Fund.**

### 3.3.4 Compensation of employees

Kshs.320,098,314 was shown for compensation of employees. The following issues were noted:

#### a) Unsupported payments

- i. Payment vouchers amounting to Kshs.82,363,039 were not provided for audit review.
- ii. The schedule provided to support payments indicated a total of Kshs.189,447,497 but the financial statements shows Kshs.320,098,314.
- iii. Sitting allowances payments of Kshs.86,850,000 were different from the payments of Kshs.39,178,000 reflected in the monthly payrolls. Therefore there was an unexplained difference of Kshs.47,672,000.
- iv. Social security benefits payments amounting to Kshs.15,952,840 were included in compensation of employees instead of being disclosed separately as per templates provided by the Public Sector Accounting Standards Board (PSASB)

#### b) Double payment of sitting allowances

Kshs.143,410,852 paid as personal allowances included allowances to MCAs and staff for committee meetings. An audit review of the committee attendance registers and the membership attendance schedules for July 2016 revealed numerous cases of multiple payments to members totalling Kshs.648,900 for having attended more than 2 committee meetings on the same date and time.

**Therefore, the correctness and validity of the Kshs.648,900 paid could not be confirmed.**

**c) Irregular payment of extraneous and honorarium allowances**

Included in Kshs.143,410,852 relating to personal allowances, the County Assembly paid Kshs.1,880,599 and Kshs.1,904,566 for extraneous and honorarium allowances respectively to MCAs and staff during the year. The following issues were noted:

- i. The payments were not taxed
- ii. There was no approval for the extra hours to justify the extra payments
- iii. No schedules signed by the people who received the payments to acknowledge receipt
- iv. Rates used and allowances paid were not approved by the County Assembly Service Board

**Therefore, the propriety and validity of the Kshs.3,785,165 paid could not be confirmed.**

**d) Unauthorised sittings outside the County Assembly premises**

Out of Kshs.143,410,852 relating to personal allowances, the County paid Kshs.5,450,112 in allowances to MCAs and staff for various committee meetings held outside the Assembly contrary to the requirements of the County Assembly Standing Order No.165.

**Therefore, the propriety and validity of Kshs.5,450,112 paid could not be confirmed**

**e) Unstructured County Assembly Service Board (CASB)**

The following issues were revealed upon review of the personnel files of the various officers:

- i. There is no personnel file for the acting Clerk of the County Assembly of Kisumu. His is not on the County Assembly payroll. It is not indicated how the officer moved to his current position in the absence of personnel records
- ii. A letter by the Ethics and Anti-Corruption Commission indicates that the Deputy Clerk was on suspension with half pay from 9 May 2015. There was no further correspondence on this subject to indicate the officer's suspension was lifted. However, the officer was in office and receiving full payment as noted in payroll.
- iii. The Head of Finance had a promotion letter dated 18 March 2011 to the position of Internal Auditor I, salary scale 8 from the office of the Deputy Prime Minister and Ministry of Local Government at that time. The CASB at a meeting on 9 January 2017 deployed the officer as acting Head of Finance office. However, there is no document showing how the officer rose from the position of Internal Auditor to Head of Finance, job group L.

- iv. The Finance Officer (job group L) was deployed as Principle Finance Officer on 7 September 2015 by Kisumu County Government. However, there is no appointment letter, promotion letter, personal biodata, academic qualifications, KRA Pin and passport photo in his personal file. There is no document indicating the terms and conditions of his employment and deployment to the County Assembly.
- v. The Head of Public Relations holds a certificate in early childhood education. The defunct County Council of Kisumu in a letter from May 2013 deployed the officer as a receptionist to the County Assembly of Kisumu. There is no evidence of how the officer rose to the position of Head of Public Relations and no reference to the terms and conditions of service.
- vi. During the year under review, there was high turnover of heads of department. There were 2 Clerks of the assembly, 2 Heads of Finance, 2 Heads of Procurement Unit and 2 Heads of Internal Audit Unit.
- vii. A review of 10 personnel files of employees revealed that appointment letters, letters of deployment to the entity, employees' personal bio-data, terms and conditions of employment, appraisal forms, passport photos and retirement dates were lacking.
- viii. The CASB had not determined and reviewed the structure of service or reorganisation of its employees. The 67 Assembly staff held in the payroll were on different salary structures as determined by the defunct local authorities. The CASB adopted a staff rationalisation and skills audit of its employees conducted in May 2013 but has not implemented this in consultation with the Salaries and Remuneration Commission. Also, there was no approved staff establishment of the County Assembly.
- ix. The payroll desk and human resource management desk are situated in the same office where staff personal files were held in open cabinets accessible by both the HR and payroll officer.
- x. The payroll officer is created in Integrated Personnel Payroll Data (IPPD) payroll with both the rights of data capture officer and system manager which allows him to access and make payroll entries and process the payroll without reference to the HR officer. A review of 10 personal files revealed no correspondence between the CASB and the payroll officer for incorporation in the IPPD payroll. The Assembly management was therefore in breach of the law.

**Therefore, the propriety and validity of Kshs.320,098,314 paid as compensation of employees could not be confirmed.**



### 3.3.5 Acquisition of assets

The financial statements show Kshs.14,605,000 for acquisition of assets which includes Kshs.8,665,980 and Kshs.5,939,020 for purchase of vehicles and other transport equipment respectively. Other amounts also catered for the purchase of ICT equipment, software and other ICT assets. However, supporting documents for the acquisition of these assets including tender documents, payment vouchers, delivery notes, issuance and use of the assets were not availed for audit review.

**Therefore, the propriety and validity of Kshs.14,605,000 spent could not be confirmed.**

### 3.3.6 Use of goods and services

#### a) Procurement of training services through request for quotations

The financial statements show Kshs.319,726,591 for Use of Goods and Services. This amount includes Kshs.20,677,010 for training costs. Out these training costs were payments totalling Kshs.9,199,041 as indicated below:

**Table 7: County Assembly Training and Costs**

Course	Date	Amount
Training on electoral laws and systems	29 June 2017	4,200,291
Training on parliamentary practice and procedures	7 March 2017	2,499,375
Training on order of business, powers and privileges	7 March 2017	2,499,375
<b>Total</b>		<b>9,199,041</b>

It was observed that the County Assembly used requests for quotations as opposed to open tender method for these services.

**Therefore, the management was in breach of Section 91(3) of the Public Procurement and Assets Disposal Act, 2015**

#### b) Training on Electoral Laws and Systems Established by the Constitution of Kenya, 2010 held in Arusha, Tanzania

Of Kshs.20,677,010 paid for training, Kshs.4,200,291 was for training in Arusha, Tanzania. The County Assembly invited 3 firms through the request for quotations method for the training from 23-26 January 2017. However, examination of the tender documents and related records revealed the following issues in the procurement process:

- i. Two of the firms invited to quote had the same phone number
- ii. Two of the firms invited to quote were using the same postal address
- iii. No acceptance and agreement letters were signed by both parties as required by Section 87(2) of the Public Procurement and Assets Disposal Act, 2015

- iv. The winner had forwarded a capacity building proposal for Kshs.4,200,291 on 13 December 2016. The County Assembly then invited requests for quotations on 12 January 2017 from two other firms, which appear to be sister companies, 1 month after having received the proposal from the winning bidder
- v. The winning bidder had also made 2 quotes for the same services for different amounts

**Therefore, the County Assembly was in breach of the law and the propriety of Kshs.4,200,291 could not be confirmed.**

#### **c) Payment of insurance policy for MCAs and staff**

The County Assembly paid an underwriting company Kshs.22,965,709 for medical cover for MCAs and staff for 21 December 2016 to 20 December 2017. Since the general elections were to be held in August 2017, the medical cover for MCAs should have been on a pro-rate basis. Management could have foreseen the cover for MCAs for the months of August to December 2018 not appropriate. Also, the list of beneficiaries was not provided for audit review.

**Therefore, the propriety and validity of Kshs.22,965,709 spent could not be confirmed.**

#### **d) Misclassification of expenditure**

Out of Kshs.10,300,000 for specialised materials and services, Kshs.6,268,927 were classified under specialised materials and services which should have been categorised into other classes as analysed below:

**Table 8: Misclassification of expenditure**

Item	Kshs.
Hospital Supplies & Services	50,000
Other operating expenses	5,908,418
Office & General supplies and services	178,509
Utilities, Supplies and Services	132,000
<b>Total</b>	<b>6,268,927</b>

In addition, a payment of Kshs.500,000 was made for purchase of spare parts for motor vehicles but charged to fuel, oil and lubricants.

**Therefore, the accuracy of the financial statements could not be confirmed.**

#### **e) Understatement of fuel, oil and lubricants**

Financial statements show Kshs.2,003,000 paid for fuel, oil and lubricants. However, a review of the records provided for audit showed that payments to two fuel service providers amounting to Kshs.11,611,404 were made for the purchase of oil, fuel and lubricants. This meant that there was a difference totalling Kshs.9,608,404 not included in the ledger transactions and therefore not in the financial statements.

**Therefore, the accuracy of the financial statements could not be confirmed.**

**f) Unsupported payment to the former Speaker**

Out of Kshs.64,474,939 relating to foreign travel, Kshs.4,146,780 was paid to the former speaker for facilitation of members of the County Assembly and staff while attending an educational tour in Rwanda. The following issues were noted:

- i. The cheque was drawn in favour of the Speaker and deposited in her personal account
- ii. There was no list of beneficiaries
- iii. Imprest warrants totalling Kshs.3,974,363 were provided to support the said payment but the same warrants were appearing in an imprest register as having not been surrendered. These warrants were not signed by the beneficiaries as proof that they received the money and had applied for the imprests.

**Therefore, the validity and propriety of Kshs.4,146,780 paid could not be confirmed.**

**g) Irregular procurement of foreign travel services**

Kshs.9,742,800 was paid to a firm awarded a contract to facilitate trips to Singapore and Rwanda. This payment was to cater for the consultancy fee, insurance and other costs for the MCAs and staff travelling to the two countries. The following issues were noted:

- i. The value of both contracts was over the maximum allowable expenditure under request for quotations class 'A' category of Kshs.2,000,000
- ii. There was no tender opening committee minutes, tender opening register, quotations register and acceptance letter from the contractor
- iii. There was no report of the trip to Singapore tabled in the County Assembly
- iv. While there was a report from the trip to Rwanda, there was no proof that the same had been tabled in the County Assembly
- v. Those who travelled to Singapore did not provide copies of passports as proof

**Therefore, the validity and propriety of Kshs.9,742,800 could not be confirmed.**

**h) Variances between support schedule figures and financial statement balances**

The following are items listed in Use of Good and Services but whose support schedules amounts are different when compared to the financial statements amounts.

**Table 9: Amounts which are different in support schedule compared to financial statement**

Item	Support schedule (Kshs.)	Financial statement (Kshs.)	Variance (Kshs.)
Utilities, Supplies and Services	1,322,480	200,000	1,122,480
Hospitality, Supplies and Services	9,082,199	4,000,000	5,082,199
Printing, Advertising and Information Services	2,703,955	2,263,320	440,635
Insurance Costs	23,735,389	16,500,000	7,235,389
Office General Supplies and Services	2,946,215	2,150,000	796,215
Fuel, Oil and Lubricants	3,054,482	2,003,000	1,051,482
Specialised Materials and Services	19,262,547	10,300,000	8,962,547
Training Expenses	12,719,855	20,677,010	(7,957,155)
Domestic Travels	155,711,761	42,200,000	113,511,761
Foreign Travel	53,813,197	64,474,939	(10,661,742)
Routine Maintenance of Motor Vehicles	2,165,298	5,130,000	(2,964,702)
<b>Total</b>	<b>289,517,378</b>	<b>169,898,269</b>	<b>116,619,109</b>

Therefore, the accuracy and validity of **Kshs. 169,898,269** in the financial statements could not be confirmed

#### i) Unsupported payments

The following were included in Use of Good and Services but whose documents were not provided for audit review:

**Table 10: Payments without supporting documentation**

Item	Kshs
Hospitality, Supplies and Services,	4,440,037
Insurance Costs	978,961
Specialised Materials and Services	12,892,819
Office General Supplies and Services	729,614
Domestic Travels	21,900,768
Foreign Travel	25,029,305
<b>Total</b>	<b>65,971,504</b>

Therefore, the accuracy and validity of **Kshs. 65,971,504** could not be confirmed.

**j) Rentals of produced assets**

Kshs.63,000,000 appeared as rental of produced assets in respect of Ward Fund payments. A review of these payments revealed the following issues:

- i. Kshs.4,240,000 was paid to 14 nominated MCAs at a rate of Kshs.40,000 per month in cash. These payments were not supported by expenditure returns.
- ii. Kshs.62,950,000 was paid to elected MCAs at a rate of Kshs.150,000 per month for maintenance of ward office. An examination of monthly returns revealed that the funds were utilised on various expenditure items and not exclusively for rent of ward office.
- iii. There was no evidence that the County Assembly passed the law authorising funds transfers of Kshs.150,000 and Kshs40,000 per month to MCAs. Also, there was no evidence that the ward employees were recruited and remunerated in adherence to the Salaries and Remuneration Commission's Circulars on the hire of staff and County Public Service Board terms and conditions of service.

**Therefore, the propriety and validity of Kshs.63,000,000 incurred could not be confirmed.**

**k) Related party transaction**

Kshs.86,783,322 appeared as Other Operating Expenses and a review of supporting documents revealed that a repayment of funds borrowed from Kisumu County Executive of Kshs.5,000,000 was included in this expense. The County Assembly requested an advance of Kshs.20,000,000 from the County Executive to cater for urgent commitments. However, no disclosure of related party borrowing by the County Assembly and the County Executive in their respective financial statements had been made. The loan ledger account and statement was not provided for review to confirm the receipt of the advance, repayments and balance. Also, it was not explained why the advance was treated as expenditure.

**Therefore, the accuracy and validity of Kshs.86,783,322 could not be confirmed.**

**l) Irregular procurement of Tax consultancy service provider**

The County Assembly paid Kshs.13,084,000 for tax consultancy services. This consultant was procured to assist in the reduction of tax, penalties and interest due amounting to Kshs.57,093,693. The following issues were noted in the procurement of the service provider:

- i. No minutes of the County Assembly Service Board meeting approving the sourcing of the service
- ii. Documents from the 3 bidders considered indicated that 2 of the firms shared the same staff

- iii. The letter from KRA demanding Kshs.57 million was not provided
- iv. The letter/waiver from KRA reviewing the said tax liability of Kshs.7 million to Kshs.9 million as indicated in the proforma invoice of the consultant was not provided
- v. The letter/waiver from KRA reviewing the said liability of Kshs.7 million to Kshs.15,584,934 as indicated in the letter from the consultant was not provided
- vi. The letter from KRA lifting attachment of the bank account and the evidence that the County Assembly was denied access to the said bank account as indicated in the consultants letter was not provided
- vii. There was no evidence that the said bank account was attached by KRA since funds continued to be drawn from that account
- viii. There was no evidence that the taxes demanded by KRA were paid by the agent or the County Assembly to the collection account as directed by the agency notice
- ix. The purported memo to the Clerk authorising procurement of tax services was dated 3 April 2017 after the services had been procured, contract awarded and signed on 21 March 2017
- x. A review of the bank statements shows that the County Assembly paid Kshs.5,000,000 to an account in a local bank on 3 May 2017 and not the accounts directed by agency notice and promised to clear the remainder in June to October 2017
- xi. Search details for the PIN: P051380919V on which the County Assembly relied in making payments to KRA was found to relate to a third party not related in the matter and not in the County Assembly of Kisumu
- xii. Another letter was written by the County Assembly on 3 May 2017 informing KRA of the appointment of the agent as tax consultant for the County Assembly and authorising the consultant to handle or tax issues relating to the County Assembly

**Therefore, the validity and propriety of Kshs.13,084,000 and Kshs.5,000,000 paid could not be confirmed.**

**m) Consultant for the preparation of financial statements**

Included in Kshs.86,783,322 relating to Other operating expenses was the amount Kshs.480,000 paid to a consultant for the assistance in the preparation of financial statements. However, the payment was not supported by a contract agreement, invoice and procurement minutes inviting, evaluating and awarding the contract to the consultant. Also, no justification was provided for the inability of the finance department to prepare financial statements considering that a number of staff are qualified and members of the Institute of Certified Public Accountants of Kenya.

**Therefore, the validity and propriety of Kshs.480,000 paid could not be confirmed.**

**n) Irregular procurement of sports items**

Kshs.86,783,322 relating to Other Operating Expenses included Kshs.1,618,000 for the procurement of various sports items. It was noted that the County Assembly did not carry out a market survey to obtain the prices for the items procured. There was no evidence of how the prices were determined neither was the payment voucher supported by an ETR receipt for the cash payment of Kshs.1,618,000. There was no evidence that the items purchased were received, inspected, recorded in the stores ledger and subsequently issued.

**Therefore, the management was in breach of regulations that prohibit payment of suppliers by cash. Also, the validity and propriety of Kshs.1,618,000 paid could not be confirmed.**

**3.3.7 Pending bills**

The pending bills balance has not been included as a note to the financial statements. Also, a listing of the pending bills has not been included as an annexure to the financial statements in conformity with the Public Sector Accounting Standards Board requirements. A schedule provided for audit indicated that pending bills amounted to Kshs.190,675,138. However, this amount could not be confirmed since the relevant supporting documentation was not provided for verification.

**Therefore, the County Assembly was in breach of the law.**

**3.3.8 Governance framework**

The County Assembly has not established an audit committee contrary to Section 155 of the Public Finance Management Act, 2012 and the Public Finance Management (County Government) Regulations, 2015. Also, the internal audit unit is understaffed with 5 officers and thus cannot adequately carry out the oversight role.

**Therefore, management was in breach of the law.**

### 3.3.9 Integrated Financial Management Information System (IFMIS)

The County Assembly has not fully implemented IFMIS during the year under review contrary to the Public Finance Management Act, 2012 which requires County Governments to process all its transactions through IFMIS. An imprest system was operated whereby the County Assembly received funds from the main Central Bank accounts and made frequent cash payments through the imprest accounts.

**Therefore, the propriety of payments made outside IFMIS cannot be confirmed.**

### 3.3.10 Fixed assets summary

A summary of the fixed assets was not included as an annexure to the financial statements in conformity with the requirements of the templates provided by Public Sector Accounting Standards Board.

**Therefore, the County Assembly was in breach of the law.**

## 3.4 Other matters relating to the County Assembly audit

### 3.4.1 Budget analysis

#### a) Budget absorption

The approved budget for the County Assembly was Kshs.654,621,594 out of which Kshs.27,605,000 was for development expenditure and Kshs.627,016,594 was for recurrent expenditure.

#### Key note

*Development budget* plays a pivotal role in the growth of the County. It relates to costs spent to create assets for long-term public good such as roads, hospitals, schools and airports. They normally include the construction of buildings, both residential and for office purposes; purchase of durable and long-term equipment, such as power generators and telecommunications equipment; establishment of water/sewer treatment plants, stadiums, recreational facilities and historical monuments, and installation of information technology equipment and other long-term equipment. *Recurrent budget* consists of regular expenses that go into the running of the County. These include salaries and allowances paid to County employees; operational costs such as travelling and accommodation, telephone, electricity and water bills; maintenance costs incurred on equipment, buildings and installations; as well as funding for costs incurred to cover compulsory obligations such as bank charges, interest on official debt, remuneration costs and other services



A review of the budget performance below shows that the County Assembly underspent and overspent on various items:

**Table 11: Budget Performance of the County Assembly**

Item	Budget (Kshs.)	Actual (Kshs.)	Over expenditure (Kshs.)	Under expenditure (Kshs.)	Absorption (%)
Basic salaries permanent employees	143,776,944	143,776,944			100
Personal allowance paid as part of salary	149,010,852	143,410,852		5,600,000	96
Other personnel payments	30,810,518	32,910,518	2,100,000		107
Communication, supplies and services	45,000	45,000			100
Domestic travel, subsistence and other transportation costs	3,200,000	42,200,000	39,000,000		1319
Foreign travel, subsistence and other transportation costs	75,260,000	64,474,939		10,785,06	86
Printing, advertising, information supplies and services	2,263,320	2,263,320			100
Utilities, supplies and services	200,000	200,000			100
Training expenses	19,911,000	20,677,010	766,010		104
Hospitality supplies and services	14,000,000	4,000,000		10,000,000	29
Insurance costs	31,500,000	16,500,000		15,000,000	52
Specialised materials and supplies	300,000	10,300,000	10,000,000		3433
General office supplies and services	2,150,000	2,150,000			100

Item	Budget (Kshs.)	Actual (Kshs.)	Over expenditure (Kshs.)	Under expenditure (Kshs.)	Absorption (%)
Fuel, oil and lubricants	2,003,000	2,003,000			100
Other operating expenses	82,955,960	86,783,322	3,827,362		105
Routine maintenance-vehicles and other transport equipment	1,000,000	5,130,000	4,130,000		513
Rental of produced assets	63,000,000	63,000,000			100
Routine maintenance-other assets	4,130,000			4,130,000	0
Other current transfers, grants and subsidies	1,500,000			1,500,000	0
Purchase of vehicles/other transport equipment	16,000,000	8,665,980		7,334,020	54
Purchase of office furniture/general equipment	11,605,000	5,939,020		5,665,980	51
<b>Total</b>	<b>654,621,594</b>	<b>654,429,905</b>	<b>59,823,372</b>	<b>60,015,061</b>	<b>100</b>

The County Assembly management did not provide evidence or explanations that the over expenditure shown above were approved as per the requirement of Section 47 and 48 of the Public Finance Management (County Governments) Regulations, 2015.

### 3.4.2 Prior year matters

The County Assembly did not indicate the status and follow up of audit issues reported in the previous year in the financial statements as required by the Public Sector Accounting Standards Board Reporting Template and therefore was in contravention of the law and regulations.

# CONCLUSION 4

This brief on the Auditor General's report for Kisumu County has provided a simplified overview of the issues raised in the County Executive and County Assembly of Kisumu for the financial year 2016/2017. The findings of the audit reveal that public money was not applied lawfully and in an effective way by both the County Executive and the County Assembly of Kisumu. The Auditor General raised audit issues regarding amounts totalling Kshs.10,829,326,412 in the County Executive and Kshs.792,592,101 in the County Assembly. In total, there were issues regarding an amount of **Kshs.11,621,918,513** in the County of Kisumu. Also, the Auditor General raised concern where there was a breach of law or regulation governing the use of public funds as these are essential controls to ensure public money is used effectively and responsibly.



**KENYA HUMAN RIGHTS  
COMMISSION**

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