



# COUNTY AUDITS FOCUS

January, 2023

## Analysis of the Auditor General's Reports on the Financial Statements of Kisumu County Executive for the FY 2018/19-2019/20

### 1.0 Introduction

The Constitution of Kenya 2010, Article 229(5) requires the auditor general to audit and report on the accounts of any entity that is funded from public funds. The audit report confirms whether or not public monies have been applied lawfully and in an effective way. These audited reports are submitted to the relevant county assembly or parliament for debate and an appropriate action arising from the report is supposed to be taken. Additionally, the Public Finance Management Act (PFM) Section 116 (7) requires the administrator of funds at the county level to prepare accounts for the funds for each financial year and not later than three months after the end of each financial year, submit the financial statement relating to those accounts to the Auditor-General and present the financial statement to the county assembly. The Auditor General is required by law to produce audit report within six months after the end of each financial year. Thereafter, the Auditor General share the report with the county assemblies and is required to publish these reports within fourteen days after submitting the report to the county assemblies.

The audit report upon submission to the county assembly is scrutinized by the county assembly's Public Account Committee (PAC) where the county public officers share insight on the audit queries. The Public Audit Act (PAA) section 50(2) requires PAC to complete scrutiny process within a span of three months upon receipt of the report. After the discussions are complete with PAC, the county shall within 3 months after the county assembly recommendations take the relevant steps to implement the recommendations.

The County Chief Officer of Finance is responsible for reporting any suspected offences to the relevant authorities and if there are any criminal matters arising from the report, then the police, the Anti-corruption Commission (EACC), Director of Public Prosecution (DPP) and any other relevant body may take up the process of the execution of the offences committed. Often when the audit queries are reluctantly addressed may lead to increasingly misuse of public resources which is not healthy for programme

implementation at the county level. It is therefore prudent for citizen's, CSOs and the media to always be on the lookout whenever the PAC report have been released and published and check what issues have been resolved and what remain unresolved from the original auditor general report.

## Types of Audits

**Compliance audit** is the independent assessment of whether a particular subject matter is in compliance with applicable authorities identified as criteria. The auditors, assess whether activities, financial transactions and information are, in all material respects, in compliance with the authorities which govern the audited entity. (At the Office of the Auditor-General, the financial and compliance audits are conducted simultaneously).

**Procurement audit** is a form of compliance audit where the auditor assesses whether procurement for goods and services is done in accordance with the Public Procurement and Asset Disposal Act,2015.

**Financial audit** involves an independent, objective evaluation of an entity's financial statements in order to give stakeholders a reasonable assurance that the financial statements are presented in accordance with the financial reporting and regulatory framework.

**Performance audit** is an independent, objective and reliable examination of whether government undertakings, systems, programmes and activities are operating in accordance with the principles of economy, efficiency and effectiveness. Performance auditing therefore seeks to provide an analysis of decisions, implementation, impact and recommendations where appropriate.

A **forensic audit** is an evaluation of an entity financial information for use as evidence in court. A forensic audit can be conducted in order to prosecute a party for fraud, embezzlement or other financial misappropriations. This involves the application of accounting methods to track and collect forensic evidence, usually for investigation and prosecution of criminal acts such as misappropriation of funds.

**Special Audits** are for "special purpose" audits, examples include environmental audits, information technology audits, procurement audits etc. These audits respond to specific requests, normally from Parliament or the County Assembly.

## Overview of types of audit Opinions

Audit opinion is a very important component in the auditing process because it makes a statement about an entity financial position. The audit report usually provides a picture of the entity financial performance over a given period of time which is normally a 12 months period. The audit opinion is based on several variables including how available the data was made to the auditors, whether the entity had the opportunity to follow all the dues procedures, the materiality aspect and whether each of the variables considered in the audit are subjective in nature and the entirely depend on the opinion of the auditor.

There are four different types of audit opinions and auditors have an option of choosing from which are stated as below;

1. Unqualified opinion
2. Qualified opinion
3. Disclaimer of opinion
4. Adverse opinion

## **Unqualified opinion - clean Report**

This opinion by the auditor is considered as a report that does not have any kind of adverse comments and it does not include any disclaimers about the audit process. The auditor determines that each of the financial records provided by the entity is free from material misrepresentation and the financial reports are prepared in accordance with the applicable financial reporting framework. The opinion indicates that the auditors are satisfied with the entity financial reporting.

## **Qualified opinion – modified report**

The auditor expresses this kind of an opinion when the auditor general has found some problems in the accounts but they are not widespread and the auditor is unsatisfied with the accuracy of certain expenditures. The auditor received all the information required for the process and the financial transactions were recorded which to a large extent are in agreement with the underlying records except that the auditor notes that there are some material misrepresentation or omission in the financial statement. A common trend for the auditor issuing this kind of opinion is the failure for the entity concerned not following the Generally Accepted Accounting Principles (GAAP).

## **Adverse opinion – adverse report**

An adverse opinion by an auditor indicates that the financial reports contain high level material misstatement or irregularities and that they have potential for a fraud. This type of an opinion is a red flag. It means that the financial statements and the underlying books of accounts have widespread misrepresentation of facts which are persistent and they require considerable intervention by the management to resolve. This kind of findings should be a concern to oversight bodies.

## **Disclaimer of opinion – disclaimer report**

A disclaimer opinion means that the auditor has no basis to undertake the audit because the accounting records are unreliable. The financial statements exhibit serious and significant misstatements which arise from inadequate information such that the auditor general is unable to form an opinion on the entity's operations. The auditor distance themselves from providing any opinion at all related to the financial statement. The auditor is unable to determine whether the situation is qualified or adverse which is a serious lapse in compliance and should be a concern to oversight institutions.

## **Scope of audit reports**

The audit reports have to be conducted in accordance with the International Standards for Supreme Audit Institutions (ISSAIs). The standards require that the audit be planned and be performed to obtain a reasonable assurance that true and fair presentation of facts is achieved in the annual financial statements. The audit includes an examination on a test basis of evidence supporting the amounts and disclosures in the financial statements, assessment of the accounting principles used and an evaluation of the overall financial statement.

## **Significance of the audit findings**

The Constitution of Kenya 2010, requires the auditor general to regularly publish and publicize the audit reports. These reports are usually technical in nature and Civil Society Organizations (CSOs) can play a good role of reviewing making these reports simpler for citizens to engagement meaningfully.

The audit finding is important as they help the county government to have systems that safeguard its internal operations and help the county to determine whether their mechanisms

to mitigate financial risks, engage in awareness creation for the various stakeholders to check whether resources are being used prudently. These findings help the county concerned to determine whether there are conditions dealing with irregularities, waste, inefficiency, conflict of interest and control weaknesses.

This therefore forms the basis of analysing a simplified Kisumu County Auditors General's report on the financial statement for financial years 2018/2019 and 2019/2020. The analysis is for engagement with Kisumu County government especially oversight bodies in the county to promote transparency and accountability in resources management.

## Classification of Audit issues

Audit issues are classified as follows;

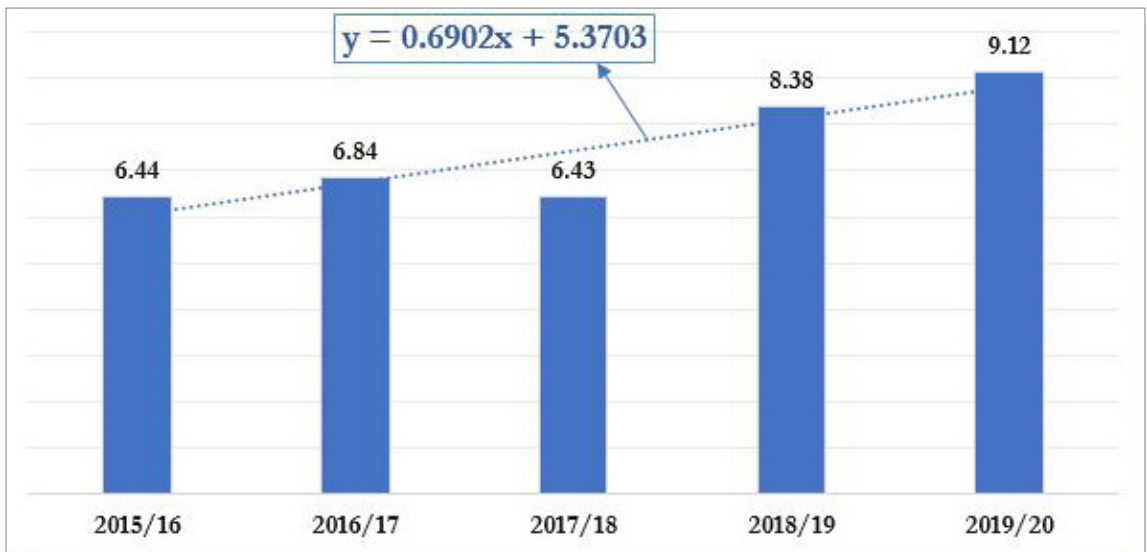
Lack of supporting documents	<ul style="list-style-type: none"> <li>• Failure to provide records</li> <li>• No documentary evidence</li> </ul>
Violation of financial regulations	<ul style="list-style-type: none"> <li>• Irregular expenditure</li> <li>• Unbudgeted expenditure</li> <li>• Ineligible expenditure</li> <li>• Violation of public procurement regulations</li> </ul>
Pending bills	<ul style="list-style-type: none"> <li>• Bills not paid during the year</li> <li>• Failure to settle pending bills</li> </ul>
No value for money	<ul style="list-style-type: none"> <li>• Poor quality/harmful purchases</li> <li>• Nugatory expenditure</li> </ul>
Failure to reconcile books of accounts	<ul style="list-style-type: none"> <li>• Variance in cash and bank balances</li> <li>• Unexplained/unreconciled variance</li> <li>• Unexplained difference. accuracy of opening balance and closing cannot be confirmed</li> </ul>
long outstanding balances	<ul style="list-style-type: none"> <li>• Long outstanding uncleared debtors</li> <li>• Long outstanding bills</li> </ul>
Others	<ul style="list-style-type: none"> <li>• Weak internal control systems</li> </ul>

Source: Author's Compilation from Auditors General's report

## 2.0 Overall Expenditure

Figure 1 shows the trends in total expenditure for the five financial years beginning 2015/16. It is these expenditures that the auditor general reviews, audits and expresses an opinion regarding whether the facts in the financial statements are presented truly and fairly. Total expenditure for Kisumu County shows a general upward trend, with an annual increment averaging Ksh 0.69 billion.

**Figure 1: Trends in total expenditure, FY 2015/16-2019/20 (Ksh Billion)**



Source: Office of Controller of Budget Reports

Approximately, Ksh 6.44 billion was spent in 2015/16 to Ksh 9.12 billion in 2019/20, implying a general increase in the funds entrusted with the public officers, hence demand for enhanced accountability.

### 3.0 Overview of Audit Opinion

The auditor general awarded an adverse opinion on the financial expenditure of county executive of Kisumu government for all the financial years under review except for 2015/16 where the auditor gave a disclaimer of opinion, this denotes consistent deteriorated performance. On the other hand, their legislature counterparts, were awarded an adverse opinion for the first three years from 2015/16 but for the two years since 2018/19, they have been awarded a qualified opinion, denoting improved performance, even though the performance is short of the best: unqualified opinion.

**Table 1: Summary of Auditor General’s opinion FY 2015/16-2019/20**

Financial Year	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Executive	Disclaimer	Adverse	Adverse	Adverse	Adverse	Adverse
Assembly	Adverse	Adverse	Adverse	Qualified	Qualified	Qualified

Source: Auditor General’s Reports

A disclaimer of opinion means that the financial statements exhibit serious and significant misstatements which arise from inadequate information such that the auditor general is unable to form an opinion on the entity’s operations. Whereas, an adverse opinion means that the financial records do not show material

misstatement that do not reflect the true and fair financial position of an entity. On the other hand, a qualified opinion means that the auditor received all the information required for the process and the financial transactions were recorded which to a large extent are in agreement with the underlying records except that the

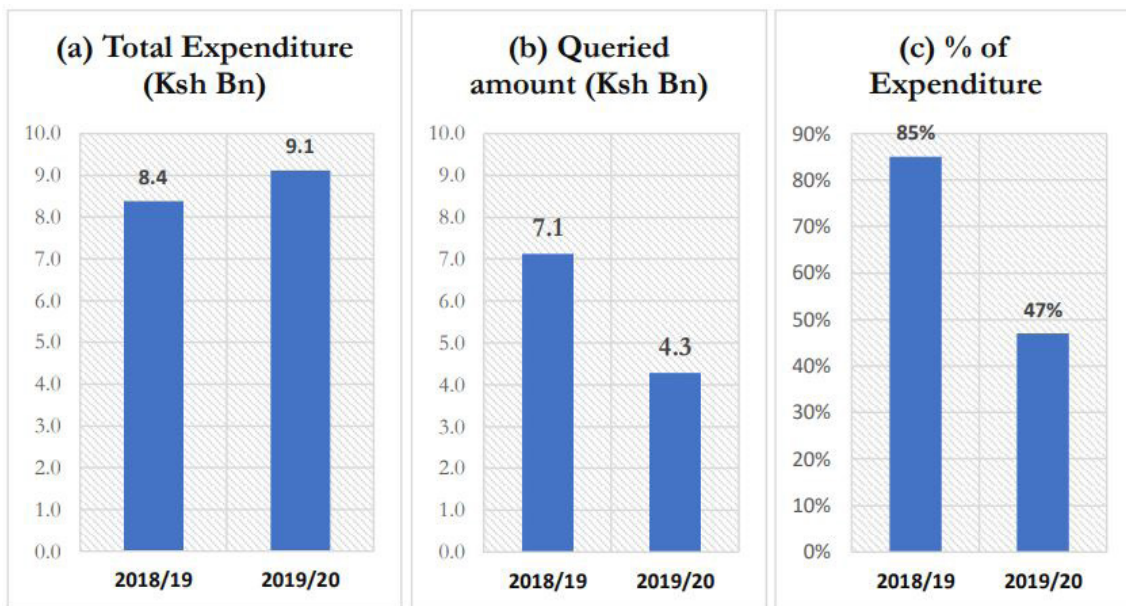
auditor notes that there were some material misrepresentation or omission in the financial statement which may have arisen due to the failure in following the Generally Accepted Accounting Principles (GAAP).

### 4.0 Queried Amounts

This section provides a summary of the queried amounts for the County Executive for Kisumu County for 2019/20 and 2018/19. Queried amounts refer to the amount relating to the audit queries raised by the auditor during an investigation as having been transacted unlawfully with respect to International Public Sector Accounting Standards (IPSAS).

Figure 2 shows a summary of total queried amounts for each of the two financial years. The queried amounts are also expressed as a share of total expenditure. The findings show that, in nominal terms, the queried amount at Ksh 7.1 billion and Ksh 4.3 billion for 2018/19 and 2019/20. However, as a share of total county expenditure, this represents 85% and 47% respectively.

Figure 2: Distribution of the queried amounts and as percentage of total annual expenditure



Source: Compilation from the Auditor General’s reports-various publications

Noteworthy, the high value of the queried amount in both years denotes the widespread misrepresentation of facts which are persistent and require considerable intervention by the management to resolve. This kind of findings should be a concern to oversight bodies.

## 4.1 Overview of audit queries

Table 2 summarises audit queries across two financial years: 2018/2019 and 2019/2020. Although there is a decrease in the number of audit queries from 31 in financial year 2018/19 to 29 in financial year 2019/20, issues relating to weak internal controls, lack of supporting documents and unresolved prior year matters continue to persist.

**Table 2: Summary of the number of audit queries by financial year**

Query	2018/19	2019/20
1. Violation of financial regulations	12	9
2. Lack of supporting documents	2	7
3. Violation of procurement regulations	4	3
4. Weak internal controls	0	3
5. Unresolved Prior Year Matters	0	2
6. Failure to reconcile books of account	8	1
7. Lack of Updated Fixed Assets Register	0	1
8. Long Outstanding Imprests	0	1
9. Long Outstanding Rates Arrears	0	1
10. Unreturned Funds to CRF	0	1
11. Failure to Operationalize Emergency Fund	1	0
12. Outstanding Imprests	1	0
13. Payment for Works Not Done	1	0
14. Payments for Goods not Delivered	1	0
15. Pending Bills	1	0
<b>Total</b>	<b>31</b>	<b>29</b>

Source: Compilation from the Auditor General's reports-various publications

The 29 audit queries raised in 2019/20, were dominated by those falling under the Violation of financial regulations (9) and Lack of supporting documents (7) classes. Lack of supporting documents and Violation of procurement regulations are examples of the classes of audit queries that have persisted for the two years under review. Weak internal controls and Unresolved Prior Year Matters are prominently emerging audit queries that the county government should take concern of. Other audit matters raise during the audit of 2019/20 reports include Lack of Updated Fixed Assets Register, Long Outstanding Imprests, Long Outstanding Rates Arrears and Unreturned Funds to CRF. Overall, it can be concluded that although there was slight improvement, the County Government of Kisumu is still faced major challenges in financial management which require serious intervention by the stakeholders - County Budget Economic Forum, County Assembly and County Executive.

## 4.2 Review and findings for FY 2019/20

Based on the audit report for Kisumu County executive for financial year 2019/20, the Auditor General raised fourteen (29) audit queries. The queried amount of the audit issues on expenditure and the corresponding shares is as shown below (see annex 1 for further details);

Query	Specific Query	Queried Amount (Ksh)	Share (%)
Failure to reconcile books of account	Unexplained variance	1,485,270,418	34.9%
	Unexplained expenditure	12,000,000	
Lack of supporting documents	Unsupported Accounts Payables	27,768,566	8.6%
	Unsupported Transfer to Vocational Training Institutions	18,760,000	
	Unsupported receipts	12,114,979	
	Unsupported expenditure	10,135,479	
	Other	297,768,608	
Violation of financial regulations	Irregular acquisition of assets (includes Irregular Payment for Renovation of Deputy Governor's House, valued Ksh 5 Million)	1,116,320,347	38.2%
	Misclassification of Expenditure	237,259,339	
	Inaccuracies in the Statement of Cash Flows	96,635,084	
	unpresented cheques	33,481,351	
	Payments in the bank but not yet recorded in the cashbooks	9,257,620	
	Irregular Purchase of a Bus	4,915,000	
	Irregular Foreign Travel and Subsistence Expenses	4,774,172	
	Misclassification of Domestic Travel and Subsistence Expenses	641,439	
	Other	129,674,986	
	Other	5,000,000	
Prior Year Adjustment		645,737,153	15.1%
Long Outstanding Imprests		114,831,010	2.7%
Unreturned Funds to CRF		24,377,272	0.6%
<b>Total</b>		<b>4,286,722,823</b>	<b>100%</b>
<b>Other audit matters</b>			
Lack of Updated Fixed Assets Register			
Long Outstanding Rates Arrears			
Non-Compliance with Law on Ethnic Composition			
Non-Compliance with Law on the Budget Process			



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

Weak Internal Audit Unit

Weak Application of Information Communication Technology (ICT)

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

Source: Compilation from the Auditor General's reports-various publications

Out of the Ksh 4.3 billion queried amount for 2019/20, the largest share is composed of the audit query related to the Violation of financial regulations at 38.2%, it is followed closely by Failure to reconcile books of account (34.9%), Unresolved Prior Year Matters (15.1%), Lack of supporting documents (8.6%), Long Outstanding Imprests (2.7%), Unreturned Funds to County Revenue Fund, CRF (0.6%). Other audit matters that had implications on the general governance but did not have implications on the audit issues include: - Lack of Updated Fixed Assets Register, Non-Compliance with Law and Weak internal control systems among others.

Further analysis of the above queries reveals the following: -

- o The leading query under *Failure to reconcile books of account* amounting to Ksh 1.49 billion was due to the un-explained variance in the statement of receipts as per the IFMIS Miscellaneous Receipts Report (MRR). Hence, in absence of any reconciliation, the accuracy of the financial statements cannot be confirmed.
- o The leading query under *Violation of financial regulations* relating to Irregular Payment for Renovation of Deputy Governor's House amounting to Ksh 1.12 billion arose due to a number of issues such as failure to disclose the contract timeframe and the contract amount by the contract agreement, failure to provide the document to support certified works and hence it was difficult to confirm the extent of the works which were done while the tender advert, regret letters and other procurement documents were also not availed for audit review. Hence, in the circumstances, the accuracy, validity and completeness of Ksh 1.12 billion in respect of acquisition of assets reflected in the statements of receipts and payments could not be confirmed.
- o The second query under *Violation of financial regulations* relating to Misclassification of Expenditure amounting to Ksh 0.237 billion represented payments to suppliers and contractors for various works, goods and services provided which were not government agencies or entities established under the Public Finance Management County Government Regulations Sections 197(1) and 200(1) which set the guidelines for establishment of county funds and county corporations respectively. The payments should therefore have been classified as either use of goods and services or acquisition of assets as opposed to treating it as transfers to other government units. Hence, in the circumstances, the financial statements were not fairly stated.

### 4.3 Review and findings for FY 2018/19

Based on the audit report for Kisumu County executive for financial year 2018/19, the Auditor General raised fourteen (31) audit queries. The queried amount of the audit issues on expenditure and the corresponding shares is as shown below;

Query	Sub Query	Queried Amount (Ksh)	Share (%)
Failure to reconcile books of account	Unreconciled variance	692,404,600	30%
	Unreconciled variance	667,749,633	
	Inaccuracies in the Statement of Receipts and Payments	369,017,342	
	Lack of Reconciliations of Cash and Bank Balances	323,168,000	
	Variance Between Compensation of Employees Amounts in the Financial Statement and IPPD Payroll	71,142,777	
	Unreconciled variance	10,000,001	
Violation of financial regulations	Inaccuracies in the Statement of Cash Flows	842,612,182	58.1%
	Inaccuracies in the Statement of Cash Flows	786,994,412	
	Inaccuracies in the Statement of Assets and Liabilities	714,694,604	
	Non-Disclosure of County Assembly Receipts	684,802,036	
	Inaccuracies in the Statement of Cash Flows	536,164,128	
	Irregular Transfers to Other Government Units	151,641,045	
	Unaccounted for Health Appropriations-in- Aid	146,657,998	
	Inaccuracies in the Statement of Cash Flows	127,917,218	
	Inaccuracies in the Statement of Cash Flows	101,069,500	
	Inaccuracies in the Statement of Assets and Liabilities	21,843,566	
	Error	21,843,565	
Outstanding Imprests	783,346,771	11.0%	
Pending Bills	47,741,927	0.7%	
Irregular Purchase of Land	18,363,462	0.3%	
Payment for Works Not Done (Acquisition of Assets)	1,286,540	0.02%	
<b>Total</b>	<b>7,120,461,307</b>	<b>100%</b>	

Query	Sub Query	Queried Amount (Ksh)	Share (%)
Other audit matters			
Violation of procurement regulations	Irregular Procurement of Advertising, Media and Branding Services		
	Irregular Procurement of Gravel		
	Irregular Procurement of Consultancy Services		
	Irregular Procurement of Desk Top Computers		
Unsupported Leasing of Medical Equipment			
Failure to Remit Returned CRF Issues to County Revenue Fund			
Non-Compliance with Annual Reporting by Accounting Officers			
Non-Compliance with Expenditure Threshold Regulations and Employment Laws			
Failure to Operationalize Emergency Fund			

Source: Compilation from the Auditor General's reports-various publications

Out of the Ksh 8.92 billion queried amount for 2018/19, the largest share was composed of the audit query related to the Violation of financial regulations at 58.1%, it is followed closely by Failure to reconcile books of account (30%). Other audit queries are: Outstanding Imprests (11%), Pending Bills (0.7%), Irregular Purchase of Land (0.3%) and Payment for Works Not Done, Acquisition of Assets, (0.02%). Other audit matters included: - Violation of procurement regulations, Unsupported Leasing of Medical Equipment, Failure to Remit Returned CRF Issues to County Revenue Fund, Non-Compliance with Annual Reporting by Accounting Officers, Non-Compliance with Expenditure Threshold Regulations and Employment Laws and Failure to Operationalize Emergency Fund.

Further analysis of the above queries reveals the following: -

- o The leading query under *Failure to reconcile books of account* amounting to Ksh 0.69 billion was due to the un-explained variance of the combined Ksh 0.30 and Ksh 0.39 billion leading to inaccuracies in the statement of receipts and payments.
- o In addition, the leading query under *Failure to reconcile books of account* amounting to Ksh 71 million was due to the variance between compensation of employees amounts in the financial statement and IPPD Payroll. The statement of receipts and payments reflects a figure of Ksh 3.44 billion as compensation of employees. However, a review of the IPPD payroll for the twelve-months showed that a total of Ksh 3.51 billion was paid as employees cost resulting to a difference of Ksh 71 million which has not been reconciled. As a consequence, the accuracy, completeness and validity of the financial statements for the year ended 30 June, 2019 could not be confirmed.
- o Furthermore, the leading query under *Violation of financial regulations* relating to unsupported receipts inaccuracies in the Statement of Assets and Liabilities amounting to Ksh 0.84 billion resulted from the unexplained difference of a net increase in cash and cash equivalents of Ksh 0.572 million which differs from the surplus for the year of Ksh 1.414 million.

- o Furthermore, the leading query under *Violation of financial regulations* relating to Inaccuracies in the Statement of Cash Flows amounting to Ksh 0.787 billion resulted from the unexplained difference of a cash and cash equivalents of Ksh 2.241 billion which differs with the cash and cash equivalents figure of Ksh 1.45 billion reflected in the statement of assets and liabilities.

#### 4.4 Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management has not resolved the issues nor given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates.

These include;

- Failure to reconcile books of account
- Lack of supporting documents
- Failure to remit funds issues to County Revenue Fund account
- Non-compliance with the law on fiscal responsibility on wage bill
- Long outstanding imprests

#### 5.0 Opportunity Cost

##### i) Irregular Payment for Debt Collection Services

In 2019/20 payments amounting to Ksh 38.05 million were made to a debt collection consultant. However, review of the signed contract agreement revealed that the contract document had terms that reimbursable costs of **Ksh 7.9 million** were charged to the County Executive yet they *were not initially in the tender documents*. These costs *were also not supported with receipts and search reports for the reimbursements claimed*. The invoices issued by consultant indicated the rates were exclusive of VAT but the contract stated that they were to be inclusive.

Further, for the digitized 17,408 plots as at 30 June, 2020 the consultant had billed and been paid a sum of Ksh 30.1 million. However, the signed contract agreement had specified the rate of Ksh 1,500 inclusive of VAT per plot, the cost would have been Ksh 26.1 million thereby resulting in overpayment by **Ksh 4.0 million**. Consequently, the value for money on the additional cost spent on the contract may not have been realized.

The reimbursable costs of **Ksh 7.9 million** that were charged to the County Executive yet they were not initially in the tender documents and an overpayment by **Ksh 4.0 million** for the plots work out to approximately combined total of Ksh 12 million.

In 2019/20, the county government collected Own Source Revenue (OSR) amounting to **Ksh 804 million**. This implies that the above combined Irregular Payment for Debt Collection Services present a high opportunity cost for the county government worth **a weeks** of Own Source Revenue collections.

## ii) Non-compliance with the Law on Fiscal Responsibility-Wage Bill

In 2019/20, the County Government contravened section 25(1)(b) of the Public Finance Management County Governments Regulations 2015 which requires that compensation of employees not to exceed thirty-five (35%) percent of the County Government's total revenue for that year. However, the audit findings reveal that during the year, the total compensation of employees amounted to Ksh 4.26 billion which is 49% of total receipts of Ksh 8.73 billion as reflected in the statements of receipts and payments.

Had the county government ensured that the wage bill does not exceed the 35% threshold, the maximum possible spending on the wage bill would have amounted to Ksh 3.06 billion leading to a saving of Ksh 1.2 billion worth of revenue.

It can therefore be concluded that failure to comply with the law on the minimum wage bill has resulted in huge opportunity costs.

## 6.0 Recommendations

### i) The County assembly should provide adequate oversight to ensure that the executive strengthens budgetary control and performance

The county executive should ensure that the annual budgets are balanced to reduce recurrence of underfunding and under expenditure. The county should enforce modules prepared through the support of a consultant to automate revenue collection to improve own generated revenue and fully fund the budget. In 2019/20 out of the projected revenue receipts amounting to Ksh 11.5 billion and the county realised actual revenue amounting to Ksh 8.73 billion resulting to an under-funding of Kshs.2.77 billion or 24% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Ksh 11.5 billion and Ksh 8.35 respectively, resulting to an under spending of Ksh 3.15 billion or 27% of the budget. The expenditure was limited to the amount realised. Management explained that the variances noted above were as a result of delays in the disbursement of funds from the National Government. The delay has the effect of denying the residents of Kisumu County the benefits accruing from the planned projects. The underfunding and under-expenditure affected the planned activities and impacted adversely on service delivery to the residents of Kisumu County.

### ii) The County assembly should provide adequate oversight to ensure that the executive addresses the pending Unresolved Prior Year Matters

The county executive should ensure that recurrent issues as raised by the Auditor General are addressed appropriately. Especially in areas of no value for money in order to achieve the county's development agenda and enhance service delivery. There should be proper checks and balances in the county internal control systems so as to ensure effective and efficient use of public resources.

In the audit report of 2018/19, several audit issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, by the end of 2019/20 the Management is yet to resolve the issues nor given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular No. AG.4/16/3 Vol.1(9) dated 24 June, 2020.

### **iii) Ensure compliance with the Law on Ethnic Composition**

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

### **iv) The County assembly should provide adequate oversight to ensure that the executive ensures compliance with law on the budget process**

For the year under review, 2019/20, the county government of Kisumu did not provide supporting documents for the County Executive budget for the financial year 2019/2020. There was no evidence provided to show that the County Budget Review and Outlook Paper (CBROP) and the debt policy document were submitted to the County Executive Committee for approval by 14 October, 2018, published and publicized by 30 October, 2018. Further, the budget policy statement and public participation process documents including invitation notices, attendance registers and minutes of the forums/meetings were not availed for audit review. This is contrary to the Public Finance Management Act, 2012 section 125 – 137, Section 87 of the County Governments Act 2012 and Section 21 – 28 of the Kisumu County Public Participation Act 2015. Hence, the county government was breach of the law.

### **v) The county executive should ensure adherence to the Public Procurement and Assets Disposal Act, 2015**

The audit findings reveal irregular Procurement of High Roof Ambulances and also evidence of failure to prepare a procurement plan and absence of E-Procurement.

In 2019/20, the County Government spent Ksh 28.4 million for the purchase of three (3) high roof ambulances. The tender evaluation committee minutes indicated that only one (1) bidder submitted the bid and was awarded the tender. This was contrary to regulation 54(3) of the Public Procurement and Disposal Regulations, 2006 that requires minimum of at least ten (10) suppliers from prequalified list for use of restricted tendering. Even though the committee recommended negotiations with the bidder on the price, there is no evidence that this was done.

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

**vi) The county executive should ensure compliance with the Law on Fiscal Responsibility-Wage Bill**

In 2019/20, the County Government contravened section 25(1)(b) of the Public Finance Management County Governments Regulations 2015 which requires that compensation of employees not to exceed thirty-five (35%) percent of the County Government's total revenue for that year. However, the audit findings reveal that during the year, the total compensation of employees amounted to Ksh 4.26 billion which is 49% of total receipts of Ksh 8.73 billion as reflected in the statements of receipts and payments.

**vii) The county executive should ensure that imprests are surrendered**

In 2019/20, the County Government was in breach of regulations 93(5) of the Public Finance Management County Governments Regulations 2015 that requires imprest to be surrendered or accounted for within 7 working days after returning to duty station. However, the audit findings reveal outstanding imprests of Ksh 114.8 million. Moreover, there was no evidence that imprests had been surrendered or accounted for as at 30 June, 2020. Further, a sample of employees with outstanding imprest indicated that several employees were issued with multiple imprests before surrender of others previously issued to them.

**viii) The county executive should ensure that the fixed assets register is up-to-date**

Audit findings for 2019/20 reveal that the County Executive did not have an up-to-dated consolidated fixed assets register as only three (3) departments namely; Department for Education, ICT & Human Resource Development, Department for Water and Sewerage Services and Department for Agriculture, Irrigation, Livestock and Fisheries had submitted their asset registers to the assets register consolidation committee that is charged with the responsibility of consolidating the assets owned by the County Executive. However, the register kept by the Department for Education did not include the construction of ECD facilities. In addition, the County Executive had not valued its parcels of land for complete recording in the register. In addition, assets previously held by the defunct local authorities had not been fully identified, secured and taken on charge. Consequently, the ownership, accuracy and completeness of existing assets register could not be confirmed for the year ended 30 June, 2020.

## 7.0 Conclusion

Despite the county executive having improved in terms of the queried the 2019/20 audit findings reveal a grim picture of the financial position for the county government of Kisumu. The audit confirms weak and ineffective internal controls, risk management and governance systems in the county. There is need for the county assembly and CSOs to provide adequate oversight to ensure effective and efficient use of public funds. The misappropriation of public resources as highlighted across the audit findings are indication of loopholes and low accountability by the County Assembly and citizens. The main concerns in the audit report for financial year 2019/20 is no value for money where money has been spent but the intended services are not offered or are not worth the money spent on.

## Glossary

Term	Meaning
Audit Query	This is the clarification sort by the auditor general on a specific issue in order to make a conclusion during the audit process
Emphasis of the matter	This refers to a paragraph that is included by the auditor in his report to direct attention of users of financial statements to a matter that has been discussed appropriately in the financial statement (usually a disclosure)
Pending bills	These are bills which are yet to be settled by an entity during the reporting period the financial year under auditing or unsettled financial obligation that occur at the end of the financial year as a result of failure to pay for good and services that has been properly procured
Stalled incomplete projects	A stall project is that one project that is still active but for a given reason has no actions pending or cannot move forward
Unsupported expenditure	All expenditures must be supported by adequate for example original copy pf receipts, invoices or even bills
Value for money	Refers to whether something that is well worth the money spent on it.



## Annex 1: Audit queries - Kisumu County executive for financial year 2019/20

*(This represents detailed explanation of the audit findings in Table 4.2 on page 8)*

Query	Sub-Query	Queried Amount (Ksh)	Cosequence/detailed explanation
Failure to reconcile books of accounts	Unexplained variance	1,485,270,418	The statement of receipts and payments reflects various receipts balances which are at variance with similar balances as per the IFMIS Miscellaneous Receipts Report (MRR)
Lack of supporting documents	Unsupported receipts	12,114,979	As disclosed in Note 9 to the financial statements, the statement of receipts and payments reflects county own generated receipts of Ksh 811,076,124. The balance includes payroll revenue surcharge of Kshs.6,228,243 that was not supported with detailed schedules of employee deductions. Revenue totalling to Ksh 5,886,736 collected by Maseno – Agriculture Training Centre was not remitted to the County Revenue Fund (CRF) account as per the requirements of Section 80 and 81 of the Public Finance Management (County Governments) Regulations, 2015 which states that all revenue collected by the County Government should be remitted to the CRF. Further, out of the total collections of Kshs.5,886,736, it was noted that Kshs.4,328,198 was spent at source and no approval or documentation was provided during audit to support the expenditure. In the circumstances, the accuracy of county own generated receipts amounting to Ksh 811,076,124 in the financial statements could not be confirmed.
Unreturned Funds to CRF		24,377,272	The transfers of Ksh 24,377,272 were done on 7 August, 2019. Consequently, the accuracy and completeness of receipts of Ksh 24,377,272 reflected as returned County Revenue Fund issues in the statement of receipts and payments for the year ended 30 June, 2020, could not be confirmed.
Violation of financial regulations		129,674,986	Represents mis-posting of the basic wages of temporary employees' balance of Kshs.129,674,986 which had not been corrected
Lack of supporting documents	Unsupported expenditure	10,135,479	Represents unsupported expenditures amounting to Ksh 10,135,479 that was not supported with relevant documents
Violation of financial regulations	Misclassification of Domestic Travel and Subsistence Expenses	641,439	Represents payment of Kshs.641,439 to a travel agent for purchase of air tickets that was misclassified as domestic travel and subsistence.

Query	Sub-Query	Queried Amount (Ksh)	Cosequence/detailed explanation
Violation of financial regulations	Irregular Foreign Travel and Subsistence Expenses	4,774,172	Represents shipping charges for a hyacinth harvester donated by the Indian Government on 19 May, 2020 which does not relate to foreign travel.
Violation of financial regulations	Misclassification of Expenditure	237,259,339	Represents payments to suppliers and contractors totalling Kshs.237,259,339 for various works, goods and services provided. It has been noted that the suppliers and contractors were not government agencies or entities established under the Public Finance Management County Government Regulations Sections 197(1) and 200(1) which set the guidelines for establishment of county funds and county corporations respectively.
Lack of supporting documents	Unsupported Transfer to Vocational Training Institutions	18,760,000	There were no acknowledgement letters from recipients or evidence for transfers of Kshs.18,760,000 to confirm that the institutions received the funds or expenditure returns to ensure that the funds were utilized as planned.
Failure to reconcile books of accounts	Unexplained expenditure	12,000,000	Represents unexplained difference of Kshs.12,000,000 in the reported balance
Violation of financial regulations	Irregular Off-setting of Expenditure	1,116,320,347	Consequently, the accuracy, validity and completeness of Kshs.1,116,320,347 in respect of acquisition of assets reflected in the statements of receipts and payments for the year ended 30 June, 2020 could not be confirmed.
Violation of financial regulations		5,000,000	The balance were not supported
			As listed in Note 21A to the financial statements, the balance includes bank balances of Kshs.1,890,819,766 which comprised of fifty-three (53) bank account balances . However, the cashbooks and bank reconciliations for twenty-four (24) of the bank accounts totalling to Kshs.260,758,079 were not provided for audit review.
Lack of supporting documents		260,758,079	
Violation of financial regulations	unpresented cheques	33,481,351	The balance includes two deposit account balances held in Co-operative Bank and Commercial Bank of Kenya with unpresented cheques amounting to Kshs.23,716,953 and Kshs.9,764,398 respectively, which were stale and had not been reversed in the respective cashbooks

Query	Sub-Query	Queried Amount (Ksh)	Cosequence/detailed explanation
Violation of financial regulations	Payments in the bank but not yet recorded in the cashbooks	9,257,620	Payments in the bank but not yet recorded in the cashbooks amounted to Kshs.9,257,620 for Kisumu County Deposit account as per the bank reconciliation statement provided. There were no explanations on why the transactions were not posted to the cashbooks. The county did not also maintain a cheque register for tracking the movement of cheques issued.
Lack of supporting documents		54,600	No board of cash survey certificates were provided for audit review.
Violation of financial regulations (Inaccuracies in the Statement of Cash Flows)		96,635,084	The statement of cash flows reflects an increase in accounts receivables of Kshs.96,635,084 which differs significantly with the actual movement in accounts receivables of Kshs.668,515,761 which was a decrease from Kshs.783,346,771 as at 30 June, 2019 to Kshs.114,831,010 as at 30 June, 2020 as per the statement of assets and liabilities.
Lack of supporting documents (Unsupported Accounts Payables)		27,768,566	The statement of assets and liabilities reflects accounts payables – deposits and retentions balance of Kshs.27,768,566. However, no schedule was provided for audit review to confirm the entities or firms that the amounts related to. It was not possible to confirm that the payments had been made after year end for projects that had been handed over and the retention period lapsed as there was no record of the same.
Unresolved Prior Year Matters		645,737,153	The statement of assets and liabilities reflects a prior year adjustments of Kshs.645,737,153 (2018/2019: Kshs.842,611,821) debits which had not been supported with journal vouchers or explanations of the errors as stipulated in the reporting template and the International Public Sector Accounting Standards 3 - Accounting Policies, Changes in Accounting Estimates and Errors Para. 54.
Irregular Purchase of a Bus		4,915,000	The Management entered into a contract with a motor dealer for the purchase and delivery of a twenty-nine (29) sitter bus at a cost of Kshs.4,915,000 which was paid in the year under review. However, a review of the procurement documents indicated that the tender was declared unresponsive by the evaluation committee on 4 April, 2019 and recommended for re-tendering.

Query	Sub-Query	Queried Amount (Ksh)	Cosequence/detailed explanation
Non-Compliance with Law on Ethnic Composition			An analysis of the June, 2020 payroll revealed that the County Executive had a total of 3,346 permanent and pensionable employees out of which 2,890 (86%) were from the dominant ethnic community in the county. This is contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which states that, “all public offices shall seek to represent the diversity of the people of Kenya in employment of staff and that no public institution shall have more than one third of its staff establishment from the same ethnic community”
Non-Compliance with Law on the Budget Process			There was no evidence provided to show that the County Budget Review and Outlook Paper (CBROP) and the debt policy document were submitted to the County Executive Committee for approval by 14 October, 2018, published and publicized by 30 October, 2018.
Non-Compliance with the Public Procurement and Assets Disposal Act, 2015 (Irregular Procurement of High Roof Ambulances)			The Management spent an amount of Kshs.28,438,500 for purchase of three (3) high roof ambulances. The tender evaluation committee minutes indicated that only one (1) bidder submitted the bid and was awarded the tender. This was contrary to Regulation 54(3) of the Public Procurement and Disposal Regulations, 2006 that requires minimum of at least ten (10) suppliers from prequalified list for use of restricted tendering. Even though the committee recommended negotiations with the bidder on the price, there is no evidence that this was done.
Procurement Plan and Lack of E-Procurement			The Management did not prepare the procurement plan in accordance with the Section 53 of the Public Procurement and Asset Disposal Act, 2015 which requires the plan to contain a description of the procuring items, unit Cost, estimated contract value, and the procurement method to be used.
Non-compliance with the Law on Fiscal Responsibility- Wage Bill			During the year under review, the total compensation of employees amounted to Kshs.4,261,475,456 which is 49% of total receipts of Kshs.8,733,502,114 as reflected in the statements of receipts and payments. This contravenes section 25(1)(b) of the Report of the Auditor-General on County Executive of Kisumu for the year ended 30 June, 2020. Public Finance Management County Governments Regulations 2015 which states that compensation of employees should not exceed thirty-five (35%) percent of the County Government’s total revenue for that year.

Query	Sub-Query	Queried Amount (Ksh)	Cosequence/detailed explanation
Long Outstanding Imprests		114,831,010	The statement of assets and liabilities reflects accounts receivables – outstanding imprests of Kshs.114,831,010. However, there was no evidence that imprests had been surrendered or accounted for as at 30 June, 2020.
Violation of procurement regulations			Review of the Human Resource Management records revealed that the County Executive did not have: - i) An approved staff establishment, an annual recruitment plan and clear basis for transfers and promotions. In the circumstance, it is not known how and on what basis the County Public Service Board managed the recruitment of human resources.
Violation of procurement regulations			A training committee as provided in Section 9.6 of the County Public Service Human Resource Policy and Procedures Manual 2015,
Violation of procurement regulations			An integrated Human Resource Management Information System. As a result, reports relating to employees such as the employees hired, employee exits, and promotions made during the year could not be obtained.
Failure to reconcile books of account			Review of revenue records revealed that the County Executive has been collecting local revenue from three main platforms namely:- E-Citizen platform used for trade licenses, public health and E- construction; LAIFOMS used in collection of building plans revenue, rent, land rates; and County Pro used in collection of business permit.

NOTES

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