REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF COUNTY GOVERNMENT OF KISII

FOR THE YEAR ENDED 30 JUNE 2015

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OFFICE OF THE AUDITOR-GENERAL

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

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of County Government of Kisii set out on pages 7 to 37, which comprise the statement of financial assets as at 30 June 2015, and the statement of receipts and payments, statement of cash flows and summary statement of appropriation: recurrent and development combined for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 8 of the Public Audit Act, 2003.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor-General's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion

on the effectiveness of the County Government's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Disclaimer of Opinion

1.0 Inaccuracy in the Financial Statements

1.1 Variance Between Financial Statements Balance and IFMIS Balances

The figures in the financial statements for the year ended 30 June 2015 availed for audit contained discrepancies amounting to Kshs.7,286,828,709 compared with the figures in the IFMIS as summarized below:-

Details	Financial Statements Amounts (Kshs)	IFMIS Report Amounts (Kshs)	Variance (Kshs)
Receipts	6,261,090,775	0	6,261,090,775
Payments	6,446,874,032	6,541,411,839	(94,537,807)
Financial assets	467,245,742	0	467,245,742
Opening balances	653,029,999	0	653,029,999
Total	**13,828,240,548**	**6,541,411,839**	**7,286,828,709**

It was not clear why the expenditure in IFMIS varied with the expenditures as presented in the financial statements and therefore the validity of the figures disclosed in the statements of receipts and payments could not be ascertained for the year ended 30 June 2015.

1.2 Inaccuracy in the Statement of Appropriations

The summary statement of appropriations had arithmetical errors on budget utilization difference column of Kshs.88,930,100 as shown in the table below:-

	Actual Expenditure As Per Financial Statements (Kshs)	Budget As Per IFMIS (Kshs)	Variance (Kshs)
Development expenditure	2,338,871,868	2,185,010,041	153,861,827
Recurrent expenditure	4,108,002,164	4,350,794,091	(242,791,927)
Total	**6,446,874,032**	**6,535,804,132**	**(88,930,100)**

In the circumstances, the accuracy of the statements of appropriation balances for the year ended 30 June 2015 could not be confirmed.

2.0 Bank Balances

2.1 Unsupported Bank Balances

The statement of assets as at 30 June 2015 reflects a bank balances of Kshs.457,223,870. Included in the balance are 20 bank accounts out of 28 bank accounts operated by the County Government with balances totaling Kshs.75,092,286 and whose cash book and bank reconciliation statements were not availed for audit review. The balances were based on the basis of bank balance schedules.

Further, included in the bank balances are County Mortgage and Car Loan Fund accounts at Chase Bank (in receivership) with balances totaling Kshs.250,000,000. The bank statements and reconciliations were also not availed for audit review. The accuracy of the bank transactions and balances for the year under review could not therefore be confirmed considering that it is a revolving fund and loans have been issued to the members.

2.2 Unreconciled Differences

In addition, a review of the bank reconciliation statements for four bank account balances indicated that there were receipts totalling Kshs.3,981,180 not yet recorded in the cash books thus understating the revenue reported. Further, there were payments in the bank statements not yet recorded in the cash books totaling Kshs.31,152,619 thus understating the payments for the period.

2.3 Configuration of Bank Accounts in the IFMIS

The County Government has not configured all its bank accounts in the IFMIS. Out of the 28 bank accounts disclosed in the financial statements for the year ended 30 June 2015, only 4 have been configured in the IFMIS.

In the circumstances, the validity, accuracy, completeness and existence of the bank balances amounting to Kshs.457,223,850 as at 30 June 2015 could not be confirmed.

3.0 Outstanding Imprests

The statement of assets as at 30 June 2015 indicates that the County Government had un-surrendered imprests amounting to Kshs.10,021,892. The audit review however, revealed that officers held multiple un-surrendered imprest totaling Kshs.52,574,424 contrary to Financial Regulations and Procedures.

In the circumstances, the propriety and recoverability of the outstanding imprest balance of Kshs.10,021,892 as at 30 June 2015 could not be ascertained.

4.0 Accounts Payables

4.1 Deposits and Retentions

The statement of assets as at 30 June 2015 reflects an amount of Kshs.25,222,451 under deposits and retention which was not supported with any analysis and workings. Further, the amount is held in the Kenya Commercial Bank Ltd in contravention of Section 6.11 of the County Financial Accounting and Reporting Regulations and the Public Finance Management Act, 2012 which states that the county treasuries are to reserve the retained fees in a deposit account at the Central Bank of Kenya.

4.2 Pending Bills

The County Government had accumulated pending bills totaling Kshs.2,067,684,770 as at 30 June 2015, of which, an amount of Kshs.963,512,000 relates to the defunct local authorities and was not adequately supported or confirmed.

In the circumstances, the status of accounts payables – deposits and retentions totaling Kshs.25,222,451 and accounts payables – pending bills totaling Kshs.2,067,684,770 as at 30 June 2015, could not be ascertained.

5.0 Receipts

5.1 Internally Generated Revenue

According to note 11 to the financial statements, other receipts total of Kshs.532,196,676 as at 30 June 2015 and which includes receipts from public health facilities operations of Kshs.226,643,128, and revenue generated from other local sources amounted to Kshs.305,553,548. A comparison to the budgeted figure of Kshs.630,000,000 highlighted significant underperformance of 49%.

Further, there were significant variances between the other budgeted revenues and actual receipts on the following items:-

Revenue item	Budget	Actual	Variance	
	Kshs.	Kshs.	Kshs.	%
Property rates	140,000,000	11,096,490	(128,903,510)	92%
Cess	32,000,000	6,633,427	(25,366,573)	79%
Plot transfer fees	7,000,000	126,335	(6,873,665)	98%
Isolation fees (surcharge on business permits)	5,000,000	931,100	(4,068,900)	81%
Market kiosks rent	10,000,000	1,345,620	(8,654,380)	87%
Slaughtering fees	500,000	38,750	(461,250)	92%
Total	**194,500,000**	**20,171,722**	**(174,328,278)**	**90%**

In addition, there were other revenue sources included in the revenue collection budgeted for the County Government totaling Kshs.181,100,000 that was neither disclosed nor accounted for.

5.2 Revenue not Transferred to County Revenue Fund Account

The audit revealed that there was an unexplained and unreconciled variance of Kshs.8,629,452 for the year ended 30 June 2015, between revenue received into county bank accounts and funds subsequently remitted to the main revenue collection bank accounts.

Further, of the total revenue collected by health institutions within the County amounting to Kshs.226,643,128 for the year ended 30 June 2015, only a portion amounting to Kshs.170,938,088 was deposited in the County bank accounts. The balance of Kshs.55,705,040 was spent by the health institutions at source and thus not banked in the County Revenue Fund as required by the Public Finance Management Act, 2012.
In the circumstances, the propriety, accuracy and completeness of other receipts amounting to Kshs.532,196,676 for the year ended 30 June 2015 could not be ascertained.

6.0 Compensation of Employees

The statement of receipts and payments for the year ended 30 June 2015 includes compensation of employees amounting to Kshs.3,107,952,104. Included in this amount was payment to Members of the County Assembly Public Service Board of Kshs.1,200,000 and Kshs.320,000 as sitting allowances in the months of August and November 2014 respectively. These amounts were not supported with any relevant documentary evidence including attendance registers and meeting minutes and the payments were not subjected to any tax deductions nor remitted to Kenya Revenue Authority as required by the Income Tax Act.

In the circumstances, the propriety, accuracy and completeness of other receipts amounting to Kshs.3,107,952,104 for the year ended 30 June 2015 could not be ascertained.

7.0 Use of Goods and Services

7.1 Unsupported Use of Goods and Services

The statement of receipts and payments reflects a balance of Kshs.890,050,060 relating to use of goods and services. The balance includes expenditure totaling Kshs.393,422,385 whose supporting documentation was not availed for audit verification, hence unable to confirm whether the amount was a proper charge to public funds.

7.2 Payments for Lease of Ambulances

The statement of receipts and payments reflects a balance of Kshs.890,050,060 relating to use of goods and services. Included in the use of goods and services figure were other operating expenses of Kshs.247,703,611 relating to payments for lease of ambulances. The County Government entered into a one year operating lease agreement with Kenya Red Cross Society on 22 October 2013 for the lease of nine (9) ambulances at a monthly cost of Kshs.600,000 per ambulance (Kshs.64,800,000 per annum). The contract expired on 22 October 2014 yet the County Government continued to make unauthorized payments totaling Kshs.5,778,328 for services received after the expiry of the contract period prior to renewal of the contract in January 2015.

7.3 Payment of Electricity Bills for Water Company

The statement of receipts and payments reflects a balance of Kshs.890,050,060 relating to use of goods and services. Included in the amount were payments totaling Kshs.16,740,000 to settle electricity bills on behalf of Gusii Water and Sanitation Company. The payments were not approved by the County Treasury as required by section 154(2) of the Public Finance Management Act, 2012.

In the circumstances, the propriety, accuracy and completeness on the use of goods and services amounting to Kshs.890,050,060 for the year ended 30 June 2015 could not be ascertained.

8.0 Mortgage and Car Loans Facility to Members of the County Assembly

Included in the statement of receipts and payments is other payments figure of Kshs.723,066,768 as shown in note 21 to the accounts. Included in other payments is an amount of Kshs.110,000,000 relating to a transfer to MCAs Car Loans and Mortgages Fund. The loans and mortgages board has not yet been established for the purpose of managing the fund. It was noted that the financial statements for the Fund have not been prepared and submitted for audit as required by Section 11 of the Public Finance Management Act.

9.0 Acquisition of Assets

9.1 Unsupported Acquisition of Assets

The statement of receipts and payments reflect a balance of Kshs.1,490,022,850 for the year ended 30 June 2015 in respect to acquisition of assets. Included in this amount are expenditure totaling Kshs.312,870,820 that are not supported with the relevant documentary evidence, hence ineligible.

9.2 Handing Over Assets and Liabilities Inherited from the Defunct Local Authorities

The statements balance of Kshs.1,490,022,850 relates to acquisition of assets for the year ended 30 June 2015 (2014 – Kshs.1,343,778,000). However, the County's financial statements for the year ended 30 June 2015 do not include the value of assets and liabilities handed over by the Transition Authority from the defunct Local Authorities, although the County Government took possession of these assets and liabilities. In addition, the Inter-governmental Relations Technical Committee which took over from the Transition Authority is yet to formally hand over the assets and liabilities of the defunct Local Authorities to the County Government. It was therefore not possible to confirm the accuracy of the opening balances for the year 2014/2015.

9.3 In-complete Assets Listing

The statement of receipts and payments reflect a balance of Kshs.1,490,022,850 for the year ended 30 June 2015 in respect to acquisition of assets. The balance differs with the summary listing of assets addition register on Annex 4 of the financial statements totaling Kshs.444,187,959 by Kshs.1,045,834,891.

Consequently, the accuracy of the summary of fixed asset register listing total amount of Kshs.10,179,044,859 as at 30 June 2015 could not be confirmed.

9.4 Procurements in Contravention of the Public Procurement and Disposal Act and Regulations.

The statement of receipts and payments reflect a balance of Kshs.1,490,022,850 for the year ended 30 June 2015 in respect to acquisition of assets. Included in the amount is Kshs.243,803,686 relating to construction of civil works. The audit noted that in the month of May 2015, the County's Supplies Chain Management Unit issued a purchase order to a supplier for the supply of 90,000 units of PVC pipes for a total sum of Kshs.2,340,000 to a company that was not in the prequalified list of suppliers and therefore not eligible to participate in the procurement as per the requirements of the Public Procurement and Disposal Act and regulations.

Further, it was noted that a tender for street lighting project for 230 lights in the County was awarded on 10 February, 2015 at a contract sum of Kshs.59,814,950 out of which an

amount of Kshs.25,000,000 had been paid to the supplier by the end of the year. Direct procurement method was used in awarding the tender with a justification that the firm is the only one capable of solar installation in the region. Further, the County Government did not notify the Public Procurement and Oversight Authority of this procurement as is required by the Public Procurement and Disposal Act.

The County Public Service Board paid a consultancy firm called Value Added Services Kshs.980,000 in the month of December 2014 to enhance human resource capacity. This firm was selected yet had not been in the list of prequalified suppliers. The County treasury also directly procured conference facilities from two Kisumu hotels in the months of March and June 2015 of which a total of Kshs.1,881,000 was paid for the services. These hotels were not in the prequalified list of suppliers.

In the circumstances, the accuracy and completeness of the assets and liabilities of the County Government balances as at 30 June 2015 could not be ascertained

10.0 Budget Control and Performance

The County Government had a budget of Kshs.7,449,560,885 voted for the financial year 2014/2015 comprising of Kshs.4,590,403,000 for recurrent expenditure and Kshs.2,859,157,885 for development expenditure. The actual expenditure for the year was Kshs.4,108,002,164 in recurrent expenditure and Kshs.2,338,871,868 in development expenditure. The details are as shown below:

10.1 Recurrent Expenditure

The comparison of the actual recurrent appropriation expenditure against the budget for the year 2014/2015 reflects the following variations:-

Recurrent Expenditure Analysis FY 2014/2015				
Sector	**Budget Kshs**	**Actual Expenditure Kshs**	**Variation Kshs**	**%**
County Assembly	641,612,651	610,106,191	31,506,460	5%
County Executive	215,600,899	190,672,186	24,928,713	12%
County Administration	504,180,023	445,470,062	58,709,961	12%
Public Service Board	40,579,330	33,895,308	6,684,022	16%
Finance and planning	881,389,826	735,864,621	145,525,205	16%
Agriculture	258,646,127	248,754,852	9,891,275	4%
Health services	1,372,775,347	1,216,682,557	156,092,790	11%
Environment	113,443,725	102,598,990	10,844,735	10%
Education and youth	215,958,287	210,976,354	4,981,933	2%
Lands	72,021,191	64,182,151	7,839,040	11%
Trade development	41,493,590	38,003,784	3,489,806	8%

Public works	125,407,646	118,165,174	7,242,472	6%
Culture	46,448,976	37,179,976	9,269,000	20%
Kisii town	60,845,382	55,449,958	5,395,424	9%
Total	**4,590,403,000**	**4,108,002,164**	**482,400,836**	11%

The overall under spending was 11% below budget, and was mainly attributed to finance and planning, culture, health and the Public Service Board.

10.2 County Executive

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

Recurrent expenditure - County Executive (Office of the Governor and Deputy Governor)

Item	Budget (Kshs)	Actual (Kshs)	Variance (Kshs)	Variance (%)
Salaries and wages	73,752,596	73,752,596	-	0%
Utilities Supplies and services	400,000	399,999	1	0%
Communication, supplies and services	2,200,000	2,199,999	1	0%
Domestic, Travel and subsistence, Other transportation costs	17,700,000	16,896,500	803,500	5%
Foreign Travel and Subsistence, and other transportation costs	16,393,754	16,112,280	281,474	2%
Printing, advertising and information supplies and services	6,090,000	4,901,560	1,188,440	20%
Rentals of Produced Assets	1,180,000	-	1,180,000	100%
Training Expense (including capacity building)	7,521,550	7,121,550	400,000	5%
Hospitality Supplies and services	18,716,772	15,999,305	2,717,467	15%
Office and General Supplies and Services	7,230,000	5,439,800	1,790,200	25%
Fuel Oil and Lubricants	11,000,000	10,448,275	551,725	5%
Other Operating Expenses	45,606,227	31,976,299	13,629,928	30%
Routine Maintenance - Vehicles and Other Transport Equipment	5,900,000	3,951,758	1,948,242	33%
Routine Maintenance - Other Assets	1,910,000	1,472,265	437,735	23%
Total	**215,600,899**	**190,672,186**	**24,928,713**	**12%**

Apart from the salaries and wages, the other significant budget line item was other operating expenses which comprised of membership fees, dues and subscriptions, security services and contracted professional and technical services.

It was not clear how budgeted expenditure items on salaries and wages, utilities supplies, communication, foreign travel would equal actual expenditures for the year under review.

The table below shows the items under the Office of the Governor that budgeted expenditure was equal to the actual expenditure.

Item	Budget Kshs	Actual Kshs
Basic Salaries - Civil Service	73,752,596	73,752,596
Electricity	200,000	199,999
Water and Sewerage Charges	200,000	200,000
Telephone, Telex, Facsimile and Mobile Phone Services	1,500,000	1,499,999
Internet Connections	500,000	500,000
Courier & Postal Services	200,000	200,000
Travel Costs (airlines, bus, railway, mileage allowances, etc.)	2,000,000	2,000,000
Accommodation - Domestic Travel	6,000,000	6,000,000
Travel Costs (airlines, bus, railway, etc.)	2,000,000	2,000,000
Daily Subsistence Allowance	5,000,000	5,000,000
Subscriptions to Newspapers, Magazines and Periodicals	120,000	120,000
Travel Allowance	1,545,600	1,545,600
Remuneration of Instructors and Contract Based Training Services	2,275,950	2,275,950
Production and Printing of Training Materials	1,200,000	1,200,000
Tuition Fees Allowance	1,000,000	1,000,000
National Celebrations	3,000,000	3,000,000
Supplies and Accessories for Computers and Printers	3,000,000	3,000,000
Sanitary and Cleaning Materials, Supplies and Services	230,000	230,000
Contracted Technical Services	5,000,000	5,000,000
Maintenance of Computers, Software, and Networks	300,000	300,000
Maintenance of Communications Equipment	600,000	600,000
Purchase of other Office Equipment	1,000,000	1,000,000
	110,624,146	**110,624,144**

There is a likelihood that funds from other budget items were used to fund excess expenditure in the items shown above.
It was also noted that the Office of the Governor surpassed the budget in the following items:-

	Budget (Kshs)	Actual (Kshs)	Variation (Kshs)	Variation (%)
Membership Fees, Dues and Subscriptions to Professional and Trade Bodies	12,471,500	13,000,000	-528,500	-4%
Legal Dues/fees, Arbitration and Compensation Payments	500,000	1,500,000	-1,000,000	-200%
Contracted Professional Services	2,096,227	2,707,050	-610,823	-29%
Binding of Records	0	300,000	-300,000	
	15,067,727	**17,507,050**	**-2,439,323**	

Management has not justified the excessive expenditure in the items highlighted above

10.3 Development Expenditure

The comparison of the actual development appropriation expenditure against the budget for the year 2014/2015 reflects the following variations:-

Development Expenditure Analysis FY 2014/2015				
Sector	**Budget Kshs**	**Actual Expenditure Kshs**	**Deviation Kshs**	**Deviation %**
County Assembly	-	-	-	
County Executive	35,000,000	24,500,000	10,500,000	30%
County Administration	52,000,000	46,000,000	6,000,000	12%
Finance and planning	446,648,044	420,349,839	26,298,205	6%
Agriculture	128,242,342	79,742,342	48,500,000	38%
Health services	479,117,499	349,615,254	129,502,245	27%
Environment	153,900,000	41,488,500	112,411,500	73%
Education and youth	284,500,000	228,650,000	55,850,000	20%
Lands	165,000,000	114,000,000	51,000,000	31%
Trade development	106,000,000	75,500,000	30,500,000	29%
Public works	885,000,000	868,643,016	16,356,984	2%
Culture	102,250,000	79,882,917	22,367,083	22%
Kisii town	21,500,000	10,500,000	11,000,000	51%
Total	**2,859,157,885**	**2,338,871,868**	**520,286,017**	18%

The overall under spending in development expenditure was 18% (Kshs.520 million) mainly attributed to Health, Environment, Education and Lands sectors.
The analysis of the County Executive Development Budget which comprises the Office of the Governor and Deputy Governor is as shown below:-

Development Expenditure - County Executive (Office of the Governor and Deputy Governor)				
Item	**Budget (Kshs)**	**Actual (Kshs)**	**Variance (Kshs)**	**Variance (%)**
Construction of county headquarter offices	27,000,000	22,500,000	4,500,000	17%
Installation of IP surveillance and security access control at Governor's office	5,000,000	1,000,000	4,000,000	80%
Establishment of enterprise county GIS unit for county planning functions	3,000,000	1,000,000	2,000,000	67%
Total	**35,000,000**	**24,500,000**	10,500,000	30%

From the analysis above 70% of development expenditure at the Governor's office had been utilized.

10.4 Performance Compared to the Previous Year

The table below compares the actual performance between the year under review (2014/2015) and the previous period (2013/2014).

Comparison Between 2013/2014 and 2014/2015				
Receipts	**Actual 2014/2015 Kshs**	**Actual 2013/2014 Kshs**	**Variance Kshs**	**Variance %**
Proceeds from domestic and foreign grants	20,570,000	-	20,570,000	100%
Exchequer releases	5,708,324,099	5,399,460,000	308,864,099	6%
Transfer from other government entities	-	5,400,000	(5,400,000)	-100%
Other receipts	532,196,676	248,847,000	283,349,676	114%
	6,261,090,775	**5,653,707,000**	**607,383,775**	11%
Payments				

Compensation of employees	3,107,952,104	2,518,467,000	589,485,104	23%
Use of goods and services	890,050,060	814,435,000	75,615,060	9%
Transfer to other government units	100,782,250	160,396,000	(59,613,750)	-37%
Other grants and transfers	135,000,000	45,000,000	90,000,000	200%
Acquisition of assets	1,490,022,850	1,343,778,000	146,244,850	11%
Other payments	723,066,768	145,500,000	577,566,768	397%
	6,446,874,032	**5,027,576,000**	**1,419,298,032**	28%
Surplus	**(185,783,257)**	**626,131,000**		

Total receipts increased by 11% mainly attributed to increased disbursements from the national government. Locally generated revenue increased by Kshs.283 million. There was greater absorption of funds in the current year than in the previous year as indicated by the deficit at the end of the year. The deficit is due to payments made from balances carried forward from the previous year. Significant increases in payments were noted in compensation of employees and other payments which relate to settling of pending bills as at the close of the previous year.

There was a significant increase in the compensation of employees' payments due to increase in the number of employees from an average of 3,363 in 2013/2014 to an average of 5,351 in 2014/2015.

11.0 Revenue

11.1 Revenue Targets

The County Government had budgeted for revenue receipts of Kshs.7,099,453,626 against an actual amount of Kshs.6,261,090,774 for the year ended 30 June 2015. The main source (95%) of revenue for the County is the allocation from the National Government in form of exchequer releases. The receipts from the National Government increased by 6% due to increase in the national budget collections. The audit noted that the County did not post exchequer receipts in the IFMIS due to inexistence of County Revenue Fund (CRF) account in the ledger. Similarly, the County did not post own generated revenue into IFMIS as commercial banks had not been created on the system. Details of budget versus actual collections are shown below:-

Item	Budget (Kshs)	Actual (Kshs)	Difference (Kshs)	%
Proceeds from domestic and foreign grants	20,570,000	20,570,000	-	0%
Exchequer releases	6,272,883,626	5,708,324,099	564,559,527	9%
Transfers from other government entitles	176,000,000	-	176,000,000	100%
Other receipts	630,000,000	532,196,675	97,803,325	16%
Total	**7,099,453,626**	**6,261,090,774**	**838,362,852**	**12%**

11.2 Collection of Local Revenue

The County uses Point-of-Sales terminals for collection of parking fees and LAIFOMS for all other streams of revenue.

11.3 Point of Sale System (POS)

In January 2014, the County entered into a contract with the Diamond Trust Bank for collection of car park and bus park fees. The bank has implemented a web based system and collects revenue through Point Of Sale (POS) terminals, which are fixed with sim cards that transmit all transactions done into a web based application. All the collections are banked into a collection account and later transferred to the County main revenue collection account.

Review of the system and analysis of data revealed the following issues:-

i. The procurement of the system was not in accordance with the Public Procurement and Disposal Act, 2005 which requires tender advertising, tender opening, evaluation, and award. Instead, it was explained that the system was procured following a county executive members meeting whose minutes were not availed for scrutiny.

ii. On review of the contract between the County Government and the bank, the following key areas were found not to have been addressed:-

- There was no service level agreement between the two parties to address the issue of system downtime and how it will be resolved.
- Reconciliation of the revenue collected by the county officials and any reports to be issued to the County Government.
- There is no agreement on how backups will be done and who will be responsible to maintain the backups.

iii. According to the first schedule of the contract, the bank is expected to forward all monies collected on the due date, which is every Friday of each week. However, examination of the bank statement revealed that in the month of

January 2015 and February 2015, the bank credited the County's account once a month. This amounts to breach of contract and no action was taken by the County Government.

iv. Reconciliation of the collection account and the County revenue account revealed that there was a difference of Kshs.8,629,452.06 between the money deposited (credited) into County accounts and amounts debited in the main revenue collection account. This difference amounts to loss of county funds and there was no satisfactory explanation given during the audit.

11.4 LAIFOMS

Apart from parking fees most of the other revenues are collected using LAIFOMS. Analysis of the revenue collected in LAIFOMS revealed the following:-

i A review of the user roles revealed that there were officers with conflicting roles. They were both operators and supervisors which meant they could create, edit and delete documents in the system.

ii Analysis of the receipts and banking in the system revealed that there was an under banking of Kshs.108,483,267 as shown below:-

	Kshs.
Total Receipts	120,747,165
Bankings	4,660,036
Direct Banking	7,603,862
Under Banking	**108,483,267**

Iii It was however explained that the county officers did not utilize the system properly but made manual bankings in the revenue account. The total banking slips for the year had a sum of Kshs.120,956,797 indicating that the county overbanked by Kshs.209,632. This variance had not been reconciled by the time of the audit review.

iv Analysis of the receipts also revealed that Kshs.7,689 duplicate receipts valued at Kshs.42,365,405 were issued to various customers.

v A review of the incoming cheques register indicated that there were ten (10) postdated cheques with an amount of Kshs.341,941.

12.0 Re-allocation of Funds

The County Government had budgeted Kshs.135,000,000 for the year ended 30 June 2015 in bursaries to needy students. Information and documentation provided for audit indicated that all the funds were utilized. However, Kshs.30,000,000 was spent on items not related to bursaries such as conference expenses, trainings and

advertisement. This reallocation of funds was illegal because county governments are not allowed to reallocate funds from development vote to recurrent expenditure. There were also no approvals from the County Assembly for this action.

13.0 Staff Matters

The County Government had budgeted to spend Kshs.3,156,061,775 during the year on compensation of employees. However, payments totaling Kshs.3,107,952,104 were made in the year ended 30 June 2015 in relation to employees' pay. In the year 2013/2014 the county had paid Kshs.2,518,467,000 to its employees. The increase of Kshs.589,485,104 or about 23% compared to the previous year is mainly attributed to inclusion of Early Childhood Development (ECD) teachers in the payroll.

14.0 Project Implementation

According to the project status report availed for audit verification as at 30 June 2015 highlighted that the department of environment allocated Kshs.112,500,000 for the construction of 450 water springs. The project was delayed and as at 30 June 2015, it still at the initial tendering stage. The slow implementation of the project has greatly affected service delivery to the people of the County.

15.0 Anomalies in the Acquisition of Assets

15.1 Construction of a Parking Lot at the Cultural Centre

The audit noted during the review of the acquisition for assets balance for the year ended 30 June 2015, that the County Government, sent request for quotations letters to three contractors for the construction of a parking lot at the main culture offices in Kisii town and the contract awarded to the lowest bidder at Kshs.3,506,970. However, the following anomalies were noted in the procurement process:-

- The procuring entity should not have used request for quotations as the maximum amount of expenditure exceeded the limits set out on the third schedule of the Public Procurement and Disposal Act.

- Scrutiny of the quotations and tender register revealed that quotations No. 92 of 2013-14 by the winning contractor had not been recorded as received in the quotations receipt register.

- The winning bidder's tender document showed that it was signed on 28 May 2014 by the supplier which was after the opening date of the quotations.

- The bid documents of one of the losing bidders had several cancellations on the figures recorded for the items which were not counter signed.

- The opening, evaluation and comparisons of the quotations were not carried jointly by the user department of the procuring entity and the procurement unit as required by Section 61(1) of the Public Procurement and Disposal Regulations, 2006.

Although the management's response was that the documents submitted for audit were later replaced, it is not clear how the same quotations were opened at different times. The award of the project to the Contractor at a contract sum of Kshs.3,506,970, being the lowest evaluated bidder, was therefore irregular as it was in contrast with section 58(3) of the Public Procurement and Disposal Act, 2005.

15.2 Drilling of Bore-Holes

The audit noted during the review of the acquisition for assets balance for the year ended 30 June 2015, the County Government entered into a private partnership with a Non-Governmental Organization (NGO) for the drilling of forty five (45) boreholes in 45 wards in May 2014. The NGO was to be paid Kshs.7,750,000 for every ten completed boreholes. The County Government was to contribute Kshs.34,895,250 and the partner company a similar amount.

As at 30 June, 2015, the Non–Governmental Organization (NGO) had completed the drilling and equipping of twenty one (21) boreholes and was paid Kshs.16,275,000 as its share of the agreement. However, the following several anomalies were noted in the partnership agreement between the County Government and the Non-Governmental Organization.

- Approval of the memorandum of understanding was not done by the County Assembly as required by the Public Finance Management Act, 2012.

- The memorandum of understanding between the County Government and the Non-Governmental Organization was not in line with the provisions of the Public Procurement and Disposal Act, 2005.

- A separate bank account had not been opened so that funds from the county and from the NGO would be deposited and expended from there. Instead the county government gave its share to the NGO who were implementing the project. It is therefore not possible to determine whether the NGO had contributed its fair share as stipulated in the agreement.

15.3 Renovation of Kisii Energy Centre

The audit review of the acquisition for assets balance for the year ended 30 June 2015 noted that a contract for the renovation of Kisii Energy Centre was awarded to a local company at a sum of Kshs.11,781,195. However, the award of the contract was erroneous as the evaluation committee had corrected the tender to read Kshs.11,511,195 under Section 63(1) of the Public Procurement and Disposal Act. The

main works involved refurbishment of an office, two stores, a zero grazing unit and construction of an ablution block.

Site verification exercise carried out in the month of September 2015 revealed that works below estimated at Kshs.1,131,950 and paid for had not been done.

Works	Amount (Kshs)
Office of project manager	100,000
Sign board	50,000
Store windows	11,200
Store - Rain water goods	54,200
Store - Joinery	86,800
Store - Floor finishes	81,300
Zero grazing - painting	4,000
Zero grazing - glazing	6,000
Zero grazing - Floor finishes	134,700
Rehabilitation of Biogas system	500,000
Ablution block - ceiling finish	103,750
TOTAL	**1,131,950**

15.4 Renovation and Improvement of County Executive VIP – Lounge

The audit noted during the review of the acquisition for assets balance for the year ended 30 June 2015 a four weeks Contract for the renovation of the VIP lounge was awarded to a local company at a contract sum of Kshs.13,248,698. The main works included, supply of furniture, painting, refurbishing reception, ceiling, improving floors, provision of windrows, blinds, electrical works and mechanical works.

Site verification exercise done on 15 October 2015 revealed that electronic boards and back light sinage of the County government at a total cost of Kshs.600,000 were not installed despite having been paid for. Management has not provided justification for the Kshs.600,000 payment.

15.5 Renovations of a Slaughter House

The audit noted during the review of the acquisition for assets balance for the year ended 30 June 2015, a contract for the renovation of a slaughter house was awarded to a local company at a contract sum of Kshs.6,453,160 in the month of October 2014 being the lowest evaluated bidder. The contract commenced in January 2015 and was to end by 7 April 2015.

Site visit made in September 2015 revealed that about 50% of the work had been done and payment of Kshs.2,079,288 made. The future of the project is not certain as the County government has warned the contractor of its intention to terminate the contract

due to poor workmanship. The County may not get value for money in this contract agreement.

Disclaimer of Opinion

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

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

NAIROBI

28 September 2016