REPUBLIC OF KENYA

REPORT

OF

THE AUDITOR–GENERAL

ON

THE FINANCIAL OPERATIONS OF KISUMU COUNTY EXECUTIVE

FOR THE PERIOD

I JULY 2013 TO 30 JUNE 2014

Table of Contents

EXECUTIVE SUMMARY……1

1.0 BACKGROUND INFORMATION 1

1.1 Introduction 1

1.2 Terms of Reference 1

1.3 Methodology 2

1.4. Scope and Determination of Responsibilities 2

2.0. KEY AUDIT FINDINGS……...2

2.1 CURRENT ASSETS 2

2.1.1. Failure to release Funds to a Referral Hospital 2

2.1.2. Cash Transfers to Various National Ministries Headquarter 3

2.2 NON-CURRENT ASSETS……...3

2.2.1. Procurement of Tractors 3

2.2.2. Procurement of Motor Vehicles 3

2.2.3. Rehabilitation of Kisumu Moi Stadium 4

2.2.4 Payments for Goods not Delivered 4

2.2.5 Supply of Marram for Gravelling 4

2.2.6 Purchase of Land and Camp Site 4

2.2.7 Projects Implementation and Status 4

2.3 CURRENT LIABILITY……..5

2.3.1. Loan Facility and Related Charges 5

2.4 EXPENDITURE REVIEW……5

2.4.1 Procurement of Drugs 5

2.4.2. Procurement for Consultancy Services 5

2.4.3 Preparation of Financial Statements for five Defunct Local Authorities 5

2.4.4 Payments to the Council of Governors 6
2.4.5. Procurement for Tour and Travel Services 6
2.4.6. Procurement of Fuel 6
2.4.7. Goods not Taken on Charge 6
2.4.8. Payment to a Court Award 6
2.4.9 Hire of Excavator 7
2.4.10. Payment for the Governor's Accommodation, Rent, Car Hire and Related Services 7
2.4.11. Unsupported Payment Vouchers 7
2.4.12 Payment of Subsistence Allowances 7
2.4.13. Double Payments 8
2.5 REVENUE RECORDS 8
2.5.2. Under banking 8
2.5.3 IOUS 8
2.5.4 Non-Remittance of Revenues Collected by Devolved Functions to County Revenue Fund Account 8
2.5.5 Cash Loss through Theft 8
2.6 HUMAN RESOURCE MANAGEMENT AND PAYROLL 9
2.6.2. Recruitment of Employees 9
2.6.3 Absorption of Contract staff under Economic Stimulus Programme (ESP) 9
2.6.4. Payment of Allowance to Executive Members 9
2.6.5. Payment of Accommodation & Extraneous Allowance to Acting Chief Officers 10
2.6.6. Payments of Extra House and Commuter Allowances 10
2.6.7 Payments of Salaries Arrears 10
2.6.8 Payment of Top Up Allowances 10
3. DETAILED FINDINGS 11
3.1 CURRENT ASSETS 11
3.1.1. Failure to Release Funds to a Referral Hospital 11

3.1.2. Cash Transfers to Various National Ministries Headquarter 11
3.2 NON-CURRENT ASSETS..... 12
3.2.1. Procurement of Tractors 12
3.2.2. Procurement of Motor vehicles 12
3.2.3. Rehabilitation of Kisumu Moi Stadium 13
3.2.4. Payments for Goods not Delivered 14
3.2.5. Supply of Murram for Gravelling 14
3.2.6. Procurement of Land and Camp Site 15
3.2.7 Projects Implementation and Status 15
3.3 CURRENT LIABILITY..... 16
3.3.1. Loan Facility and Related Charges 16
3.4 EXPENDITURE REVIEW..... 16
3.4.1. Procurement of Drugs 16
3.4.2. Procurement of Consultancy Services 17
3.4.3 Preparation of Financial Statements for five Defunct Local Authorities 18
3.4.4. Payments to the Council of Governors 18
3.4.5. Procurement of Tour and Travel Services 18
3.4.6. Procurement of Fuel 19
3.4.7. Goods not Taken on Charge 19
3.4.8. Payment to a Court Award 19
3.4.9 Hire of Excavator 20
3.4.10 Payment for the Governor's Accommodation, Rent, Car Hire and Related Services 20
3.4.11 Unsupported Payments 22
3.4.12 Payment of Subsistence Allowances 22
3.4.13 Double Payments 22
3.5 REVENUE RECORDS..... 23

3.5.1. County Revenue 23

3.5.2. Under banking 23

3.5.3 IOUS 24

3.5.4 Non-Remittance of Revenues Collected by Devolved Functions to County Revenue Fund Account 24

3.5.5 Cash Loss through Theft 25

3.6 HUMAN RESOURCE MANAGEMENT AND PAYROLL 26

3.6.1. Payment to the County Executive Committee Members 26

3.6.2. Recruitment of Employees 26

3.6.3 Absorption of Contract staff under Economic Stimulus Programme (ESP) 27

3.6.4. Payment of Allowance to Executive Members 27

3.6.5. Payment of Accommodation & Extraneous Allowances to Acting Chief Officers 28

3.6.6. Payments of Extra House and Commuter Allowances 28

3.6.7 Payments of Salaries Arrears 28

3.6.8 Payment of Top Up Allowances 29

REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL OPERATIONS OF KISUMU COUNTY EXECUTIVE FOR THE PERIOD, 1 JULY 2013 TO 30 JUNE 2014

EXECUTIVE SUMMARY

1.0 BACKGROUND INFORMATION

Kisumu County is one of the forty seven (47) counties created by the Constitution of Kenya 2010 in line with the spelt out functions. Its headquarters is Kisumu City.

The County's neighbours are Siaya County to the West, Vihiga County to the North, Nandi County to the North East and Kericho County to the East. Nyamira County to the South and Homa Bay County to the South West. The County covers a total area of 2085.9km^2.

The County Government of Kisumu has seven (7) Sub Counties namely; Kisumu East, Kisumu West, Kisumu Central, Seme, Nyando, Muhoroni and Nyakach.

1.1 Introduction

This management and financial operations audit covers the period 1 July 2013 to 30 June 2014. It was undertaken to assess the adequacy and reliability of the systems of management and financial controls instituted by the management of the County Government in running its affairs with emphasis on the utilization of public resources.

1.2 Terms of Reference

The Office of the Auditor-General is an independent office mandated by the Constitution under Article 229 to audit the accounts of the National and County Government. In this regard, the office planned a management and financial operations of the County Government of Kisumu for the period 1July 2013 to 30 June 2014 with the following audit objectives.

- Assessment of controls over management of cash and bank accounts.
- Assessment of controls over management of assets under the control of the County Government.
- Assessment of compliance with the procurement laws in process of acquisition of goods or services.
- Assessment of compliance with Public Finance Management Act, 2012 in the utilization of public funds.
- Compliance with other relevant laws and regulations
- To ascertain the integrity and reliability of financial and other information used by management in the utilization of public funds.

- To confirm that all necessary supporting documents, records, and accounts have been kept in respect of all transactions.

1.3 Methodology

The approach used in carrying out this audit included the following:

- Interviews with key officers at the County Government offices.
- Review of applicable legislation and regulations.
- Examination of payment vouchers, cashbooks, vote books, bank statements, bank slips, Miscellaneous receipt books, procurement documents, stores records, asset registers and other related records.
- Review of minutes of various meetings where there were resolutions regarding utilization of public funds.
- Physical inspection and verifications
- Observation of processes and activities.
- Review of documents used by management to monitor use of funds.

1.4. Scope and Determination of Responsibilities

The audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs).These standards require that the audit is planned and performed so as to obtain reasonable assurance that, in all material respects, expenditure incurred is fairly stated and fair recording is achieved in all financial transactions.

The matters mentioned in this letter are therefore those that were identified through tests considered necessary for the purpose of the audit and it is possible that there might be other matters and/or weaknesses that were not identified.

The maintenance of effective control measures and compliance with laws and regulations are the responsibility of the management. Our responsibility is to report on the weaknesses that were identified in the course of the audit.

2.0. KEY AUDIT FINDINGS

2.1 CURRENT ASSETS

2.1.1. Failure to release Funds to a Referral Hospital

The National Treasury allocated Kshs.395,636,481 to Jaramogi Oginga Teaching & Referral Hospital**.** The amount was factored in the Hospital's 2013/14 budget. The money was released to the Hospital through the County Government, which however, only released Kshs.129,556,429 to the Hospital, leaving a balance of

Kshs.266,080,052 which to date, without any explanation has not been released. In their response, the management stated that this amount will be factored in the next budget. It was therefore not clear why it was misallocated and used by the County Executive on unexplained transactions.

2.1.2. Cash Transfers to Various National Ministries Headquarter

During the year, the County Government transferred Kshs.418,689,044 to various National Government Ministry's Headquarters and Ksh.627,315,224 was retained by Treasury at the end of the financial year 30 June 2014 all totalling Kshs.1,046,004,268. The management responded that the National Treasury had given a demand note of Kshs.858,383,650 against recovery of Kshs.1,046,004,268, thus an overpayment by Kshs.187,620,618. The Management explained that the transfers were in respect of Salaries and other emoluments paid to devolved staff by various ministries between July 2013 to December 2013.

However, no joint reconciliation was carried out to confirm the actual amount which ought to have been transferred since the personal files of the devolved staff, particularly health, had not been forwarded to Kisumu County Government from the respective parent ministries. Further, the miscellaneous receipt generated and issued by the National Government was not availed for audit verification.

2.2 NON-CURRENT ASSETS

2.2.1. Procurement of Tractors

During the year under review, the County Government procured eight (8) Tractors (New Holland) and accessories from a supplier at a total cost of Kshs.50,044,000. The tractors were purchased under Government contract agreement for the supply of Government vehicles. However, the supply of five (5) tractors (New Holand T.D 80 4WD -Turkey) was done at Kshs.4,698,000 each which exceeds the recommended price of Kshs.4,408,000 resulting in an overpayment of Kshs.1,450,000 for the five tractors.

Further, the Management purchased from the same firm disc plough, paddy rice reaper, thresher and rotavator costing Kshs.9,270,000 without tendering process since the items were not included in the supply circular from the Ministry of Public Works.

The minutes of the County Tender committee approving the procurement were also not made available for audit verification.

2.2.2. Procurement of Motor Vehicles

The County through direct procurement method, purchased a Toyota Land Cruiser VX200 and a Mercedes Benz E250 from two firms at Kshs.9,711,270 and Kshs.16,364,352 respectively. The management in its response indicated that the purchase of the vehicles was done using a Government contract agreement which was not availed for audit verification.

Further, the County through direct procurement method purchased forty (40) motor vehicles costing Kshs.181,228,280 from one supplier. The procurement method used did not fulfill any of the two conditions set out in section 74 (2) (b) of Public Procurement and Disposal Act, 2005.

2.2.3. Rehabilitation of Kisumu Moi Stadium

The County Government during the year under review awarded contracts with total cost of Kshs.8,438,616 to several firms for the rehabilitation works which include construction of a dressing room, fencing, parking building, painting and cleaning at Moi Stadium, Kisumu. Prior to this expenditure, the stadium had been renovated by the Ministry of Sports at a cost of Kshs.56,212,484.20 in respect of re-construction of perimeter wall and installation of flood lights. It was therefore not clear why the County Government had to spend on renovation of the stadium which had just been done by the Ministry of Sports of the National Government.

2.2.4 Payments for Goods not Delivered

The County Government paid a supplier Kshs.1,036,460 for the supply and installation of deep freezers and solar panels at various market Centers. Audit verification revealed that the deep freezers and solar panels had not been installed at the time of audit as stated in final payment certificate. The markets include Riat, Ogenya, Ahero, Nyamware and Pap Onditi.

2.2.5 Supply of Marram for Gravelling

A supplier was paid Kshs.2,970,000 for the supply of Murram for gravelling Sondu-Kusa road.The supplier was not prequalified for supply of marram and no quotations were raised for the same. Further, the inspection and acceptance certificates for receipt of the marram were also not availed for audit verification. It was therefore not possible to confirm that the murram was delivered in accordance with the order issued.

2.2.6 Purchase of Land and Camp Site

During the year under review, the County Government purchased land and camp structures from a Construction Company in Nyakach Sub county at a cost of Kshs.12,500,000. The land LRNo. SOUTH/NYAKACH/KOGUTA WEST/5124 measuring 3.129 hectares was valued by ministry of Land. There were however no minutes and resolutions to support the purpose of the purchase of this land and other structures standing on it. The purpose for which the Land was bought was not disclosed.

2.2.7 Projects Implementation and Status

During the year under review, the County Government entered into contracts with various contractors to undertake various projects and incurred expenditure totalling Kshs.81,000,194, accounting for only 2% of total budgeted expenditure of Kshs.4,426,120,010. The delay in completion of projects and the large number of stalled projects indicates that the capacity of the contractors appointed by the County Government appear doubtful.

2.3 CURRENT LIABILITY

2.3.1. Loan Facility and Related Charges

The County Government on 20 August, 2013 took a bank loan of Kshs.13,032,474 towards payment of the members of the County Assembly who were going on safari to Uganda, Europe and Nairobi on diverse dates. The Bank credited the loan on 21 August 2013 and the management made cash withdrawal on the same date. The following additional anomalies were noted:

The County Government incurred negotiation fees and interests arising from the loan and overdraft facility of Kshs.1,097,100. The management however, did not offer a satisfactory explanation on the urgency to travel that warranted the bank loan to finance the journeys. The authority from the National Treasury or County Assembly authorizing the acquisition of the bank loan was not availed for audit verification.

2.4 EXPENDITURE REVIEW

2.4.1 Procurement of Drugs

The County Government procured pharmaceutical and non-pharmaceutical drugs from various firms at a total cost of Kshs.26,916,894. However, Management indicates that one procurement of Kshs.20,815,027 done from a hospital was through open tender whose documents were not availed for audit verification. The other procurements were done from two firms said to have been prequalified but the quotations and subsequent processing documents were also not availed for audit verification. Further, the inspection and acceptance certificates and stores records for receipt of the drugs were also not availed for audit verification.

2.4.2. Procurement for Consultancy Services

The County Government made payments to various consultancy firms totalling Kshs.12, 684,250 for valuation of assets, legal services and review of financial systems. The County Government procured and paid a consultant Kshs.7,034,688 for an advertisement done by Kenya under a new horizon Chinese edition but it was not clear what type of edition this was or the targeted clientele. The County may not have received value for money in the advertisement done by Kenya under the new horizon Chinese edition.

Tender documents relating to procurement of the consultancy service were not availed for audit verification.

2.4.3 Preparation of Financial Statements for five Defunct Local Authorities

In the year under review, the management paid a Management consultant Kshs.1,440,000 for the preparation of financial statements for five (5) defunct local authorities. Management did not explain how the firm was identified and how the amount paid was determined. Further the staff of the defunct Local Authorities who could as well prepare the financial statements were absorbed by the County Government. There were no clear and proper terms of reference and the Financial

Statements prepared have pending audit queries and require amendments which the consultant and management have not responded to for the last eight months.

2.4.4 Payments to the Council of Governors

In the year under review the County Government paid Kshs.9,504,018 to the Council of Governors. The Council of Governors was created under the Inter- Governmental Relations Act, 2012 Section 19. The expenditure of the council as provided by Section 37 of the Act shall be provided through the annual estimates of the Revenue and Expenditure of the National Government. Consequently, the propriety of the transfers to council of Governors could not be determined.

2.4.5. Procurement for Tour and Travel Services

The County Government paid total expenditure of Kshs.3,005,530 to various tour firms on travel and accommodation. Though the management asserts that these firms were prequalified, no evidence was provided for audit verification to confirm the same and it is not clear what official duties the officers were travelling to perform. In the circumstance, it was not possible to confirm whether full value for money was received.

2.4.6. Procurement of Fuel

The County Government procured fuel worth Kshs.26,766,348 from two suppliers in the period under review. One supplier did not own a pump station or fuel storage facilities. Though the County Government indicated that the firm was pre-qualified by Kisumu East District, no attachment to support the prequalification was made available. Further, the fuel register was not properly maintained, work tickets for various vehicles had numerous mistakes, there was no reconciliation of fuel purchases against recorded official travels and consumption of fuel. Also, the actual fuel drawn was not the same as the fuel paid for since the fuel statements issued from the supplier indicated more fuel drawn than what was shown in the work tickets, raising concerns on the accuracy of the work tickets. The County Government could not therefore account for the fuel paid for.

2.4.7. Goods not Taken on Charge

In the year under review the County Government did not record all receipts in stores ledger for purchases of goods totalling Kshs.31,278,047. Receipts and issues from stores were not supported by Form S. 11, S. 12 and S.3 card, hence the County Government may have paid for goods not delivered.

2.4.8. Payment to a Court Award

The County government paid a contractor Kshs.13,067,928 being settlement of court award of a case against Gulf Fabricators Vs Municipal Council of Kisumu. The payment was wrongly recorded in the Cash book as civil work and infrastructure. The file did not have the background of the case or evidence of defense and ruling. It is not clear why the payment was made without considering the option of appeal

against the court award. There was no legal opinion sought and provided by a lawyer indicating that the County Government would not win in case of an appeal.

2.4.9 Hire of Excavator

The County Government hired an excavator from Ministry of infrastructure and transport and paid Kshs.1,917,600 for road works within the County.

There were no inspection and acceptance certificates on delivery of services contrary to section 17 of Public Procurement and Disposal Regulations, 2006 and work plan and work tickets for operations in full were not made available for audit verification.

Consequently, it was not possible to confirm whether the services were rendered.

2.4.10. Payment for the Governor's Accommodation, Rent, Car Hire and Related Services

In the year under review, the County Government paid Kshs.20,910,169 to a Hotel for the Governor's full board accommodation, car hire and other hotel services. However, a house was rented for the Governor where Kshs.540,000 rent for the months of April, May and June 2013 was paid but management indicated that the tenancy agreement was cancelled and payment was refunded. However, the tenancy agreement and evidence of refund was not availed for audit review. The Governor's accommodation expenses in an hotel totalling Kshs.3,511,135 between April to June 2013 represent double payment for accommodation since there was no evidence of refund of the Kshs.540,000.

It was not possible to ascertain why the Governor could not occupy the official residence of the former mayor of the now defunct Municipal Council of Kisumu so as to save on the costs now being incurred for his hotel accommodation and tenancy charges on rented premises.

2.4.11. Unsupported Payment Vouchers

Examination of payment vouchers with a sum of Kshs.121,194,088 made to various suppliers revealed that the payments were made without proper supporting documentations. Consequently the delivery of goods or services could not be confirmed. Further, payment schedules were not attached to vouchers and in some cases were not supported with the budgets and therefore it was difficult to confirm if the payments were made to the right payees and how the funds were utilized. It was not possible to vouch the said expenditure or confirm whether it was a proper charge on the County funds.

2.4.12 Payment of Subsistence Allowances

The County granted officers imprests totalling Kshs.6,372,352 in respect of subsistence allowances but upon surrender no supporting documents were attached. Further, the County did not maintain an imprest register to record the imprests. The amounts of money being held in imprest represent services denied to

the public and there is a high risk that the funds were not utilized for the intended official purposes.

2.4.13. Double Payments

The County made double payments to five (5) officers totalling Kshs.171,500 for accommodation during an IPPD Training at Kenya School of Government on 6 to 11 October 2013. The officers were paid full per diem whereas their full board accommodation was also paid by the Directorate of Public Service leading to double payment.

2.5 REVENUE RECORDS

Local Source revenue

In the period under review the County Government realized total local revenue collections of Kshs.526,479,919 against revised budget figure of Kshs.1,800,739,230 from sub-Counties and the City of Kisumu. This represent 29% performance and no explanation was provided for the underperformance.

2.5.2. Under banking

The County Government of Kisumu collected revenue totalling Kshs.526,235,506 and banked Kshs.492,479,919 leading to under banking of Kshs.33,755,587 contrary to section 109(2) of the Public Finance Management Act, 2012. The amount not banked was explained by the management to have been spent directly but the County Government did not avail any documents in support of the expenditure. It was not possible to ascertain/confirm whether the amount of Kshs.33,755,587 not banked was properly utilized and accounted for.

2.5.3 Unprocessed Payment Vouchers (IOU)

Cash survey carried out on 12th July 2014 revealed that County employees borrowed cash from the chief cashier totalling Kshs.31,155,527 on diverse dates. Kshs.26,930,499 was held in form of unprocessed payment vouchers and cash sales contrary to the financial regulations and the balance of Kshs.4,224,758 had not been refunded or could not be accounted for.

2.5.4 Non-Remittance of Revenues Collected by Devolved Functions to County Revenue Fund Account

Devolved entities namely; Ministry of Health, Agriculture, Water and Physical Planning which were previously under the national Government continue to collect revenues which are not being banked into the County Revenue Fund.

2.5.5 Cash Loss through Theft

Thieves broke into City of Kisumu offices on 15 March 2014 and stole Kshs.3,021,984 (Cash Kshs.2,349,105 and Cheques Kshs.672,879). The management hired Deloitte and Touché audit firm to carry out investigations on the circumstances surrounding the theft of cash and make necessary recommendations

for action. The management did not provide tender documents to ascertain, how the firm was identified and awarded the contract together with agreed contract price despite incurring hotel expenses of Kshs.280,000.

Loss of County Government's much needed resource in unclear circumstances is a demonstration of lack of controls on the same. Consequently, it could not be determined whether the Government got value for money spent on hiring the firm.

2.6 HUMAN RESOURCE MANAGEMENT AND PAYROLL

The County Government irregularly incurred a total expenditure of Kshs.1,350,000 and Kshs.6,489,000 respectively in overpayment of salary and extraneous allowance.

2.6.2. Recruitment of Employees

The County recruited twenty three (23) new members of staff during the financial year 2013/2014. However, there were no advertisements for the posts. Further, the appointments were done before the County Public Service Board came into existence (Appointed on 28th November 2013).

In addition, there was no evidence of the creation of the offices by the County Public Service Board and no budgetary provisions were made for the recruitments.

The recruitment contravened section 66 County Government Act No.17 of 2012 and hence additional financial burden to the County Government which compromises on delivery of other essential services.

2.6.3 Absorption of Contract staff under Economic Stimulus Programme (ESP)

i. The County payroll for the month of April, May and June 2014 revealed that ESP health workers had not been absorbed into the County's payroll as at 30 June, 2014 as per Cabinet Secretary for Health letter ref. No. MOH/ADM/1/1/130/VOL.I/ (52) dated 24 January, 2014.

ii. Examination of County's compensation of employees revealed that Kisumu County spent Kshs.38,133,424 to pay for casual employees against a budget provision for payment of casual labour under headquarters of Kshs.2,760,000 leading to excess expenditure of Kshs.35,373,474.

2.6.4. Payment of Allowance to Executive Members

The County Government made payments of Kshs.360,000 on 16thJuly 2013 to each County executive member in respect of allowance for attending human resource committee for 30 days. The total payment to ten (10) executive members translates to Kshs.3,600,000. Although management has indicated that the payment was for the accommodation and settlement when the CECs took up their new responsibilities, no approval from Salaries and Remuneration Commission was availed for audit verification.

2.6.5. Payment of Accommodation & Extraneous Allowance to Acting Chief Officers

The Acting Chief Officers in the month of October 2013 were paid accommodation and extraneous allowances totalling Kshs.2,511,000. No authority from Salaries and Remuneration Commission authorizing the payments was availed for audit verification. The payments were made contrary to Public Service Human Resource Manual section F sub section F. 2. on allowances which states that an officer travelling on duty is required to stay overnight away from permanent station and make his own arrangements for boarding and lodging. The propriety of the allowances could therefore not be confirmed.

2.6.6. Payments of Extra House and Commuter Allowances

During the year, the County Government paid top up of house and commuter allowances totalling Kshs.2,916,000 to Chief Officers deployed in the County for performing duties of higher posts pending advertisement of the post. The officers were paid house allowance, and other remunerative allowances assigned to the higher posts contrary to human resource manual and code of regulations. The top up of house allowance and commuter allowance were paid without authority from Salaries and Remuneration Commission and the County Government lost Kshs.2,916,000 in the irregular payments.

2.6.7 Payments of Salaries Arrears

The County payroll summary for the month of April, May, and June 2014 revealed that Kshs.50,072,310 was paid as salaries arrears which comprised of Kshs.906,814, Kshs.2,825,240 and Kshs.46,340,256 in respect of April, May and June 2014 respectively. The Management did not provide detail breakdown and the purpose and the period to which the salary arrears relate.
There is a risk that unauthorized arrears could be paid leading to loss of Government revenue.

2.6.8 Payment of Top Up Allowances

The County paid Kshs.2,570,500 to officers seconded from various Government departments as top up allowances contrary to Sections E and J of the Civil Service Code of Regulations and Section F of the County Public Service Human Resource Manual which lists all recommended allowances to be paid. In addition, the County Government of Kisumu did not seek authority from Salaries and Remunerations Commission (SRC) leading to total loss of Kshs.2,570,500.

Edward R.O. Ouko, CBS
AUDITOR-GENERAL

3. DETAILED FINDINGS

3.1 CURRENT ASSETS

3.1.1. Failure to Release Funds to a Referral Hospital

The National Treasury through a press release dated Friday 6 September 2013 stated that in pursuant to County Allocation of Revenue Act, 2013, Kshs.395,636,481 had been allocated to Kisumu Jaramogi Oginga Odinga Teaching & Referral Hospital**.** The amount was factored in the Hospital's 2013/14 budget for both development and recurrent expenditures. The County Government however, only released Kshs.129,556,429 to the Hospital, leaving a balance of Kshs.266,080,052 which to date, and without any explanation, has not been released. In their response, the management stated that this amount will be factored in the next budget. It was therefore not clear why it was misallocated and used by the County Executive on unexplained transactions.

In the circumstance, it is clear that the county Government misallocated without authority funds meant for the development of the hospital and in contravention of Section 43 of Public Finance Management Act, 2012.

Recommendation

The County Government should in future release funds meant for development and for other sectors in good time as provided for in the budget**.**

3.1.2. Cash Transfers to Various National Ministries Headquarter

During the year, the County Government transferred Kshs.418,689,044 to various National Ministry Headquarters and Ksh.627, 315,224 was retained by Treasury at the end of the financial year, 30 June 2014, all totalling Kshs.1,046,004,268. The management responded that the National Treasury had given a demand note of Kshs. 858,383,650 against recovery of Kshs.1,046,004,268, thus an overpayment by Kshs.187,620,618.The Management explained that the transfers were in respect of Salaries and other emoluments paid to devolved staff by various ministries between July 2013 and December 2013.

However, no joint reconciliation was carried out to confirm the actual amount which ought to have been transferred since the personal files of the devolved staff, particularly health, had not been forwarded to Kisumu County Government from the respective parent Ministries. Further, the miscellaneous receipt generated and issued by the National Government was not availed for audit verification.

Recommendations

i. Joint reconciliation ought to be carried out to confirm the accuracy of Salaries claimable by the National Government for salaries to staff that performed devolved functions and settlement to either party on arising claims.

ii. The management should liaise with the respective parent ministries for the files of the devolved staff to be availed so as to confirm the actual employees, designations, salary grade/scale and their pay.

iii. The parent ministries should reconcile with the County Government to determine the actual outstanding balances.

3.2 NON-CURRENT ASSETS

3.2.1. Procurement of Tractors

During the year under audit, the County Government procured eight (8) Tractors (New Holland) and accessories from CMC motors group Ltd at a total cost of Kshs.50,044,000 vide LPO No.01531 dated 21 February 2014. The tractors were purchased under Government Contract Agreement for the supply of Government vehicles. However, supply of five (5) tractors (New Holand T.D 80 4WD -Turkey) was done at Kshs.4,698,000 each which exceeds the recommended price of Kshs.4,408,000 resulting in an overpayment of Ksh.1,450,000 for the five (5) tractors.

Further, the Management purchased from the same firm a plough, Paddy rice reaper, thresher and rotavator costing Ksh.9,270,000 without tendering process since the items were not included in the supply circular from the Ministry of Public Works.

The minutes of the County Tender committee approving the procurement were also not made available for audit verification.

Recommendations

The Public Procurement and Disposal Act, 2005 and related Regulations of 2006 should be followed in future to ensure that goods are procured competitively and realize value for money.

The County Government should institute a process to recover Kshs.1,450,000 overpaid.

3.2.2. Procurement of Motor vehicles

The County Government through direct procurement method incurred expenditure of Kshs.26,075,622 on the procurement of two Motor Vehicles for the Governor: a Toyota Land cruiser VX 200 from Toyota Kenya at Kshs.16,364,352 and a Mercedes

Benz E250 from DT Dobie Kenya at Kshs.9,711,270. The management in its response indicated that the purchase of the vehicles was done using a Government contract agreement which was not availed for audit verification.

Further, the County through direct procurement purchased forty (40) motor vehicles costing Ksh. 181,228,280 from one supplier as follows:

Vehicle Type	Number	Payee	Unit Price	Amount
Volkswagen Crafter	1	CMC Motors Ltd	6,495,000	6,495,000
Eicher Tipper Model	5	CMC Motors Ltd	5,716,600	33,156,280
Suzuki vitara	14	CMC Motors Ltd	3,995,000	55,930,000
Ford Everest	3	CMC Motors Ltd	5,353,000	16,059,000
Volkswagen	2	CMC Motors Ltd	5,750,000	11,500,00
Ford Everest	13	CMC Motors Ltd	5,353,000	69,589,000
Total	**40**			**181,229,280**

i. The forty vehicles were procured through direct method (single sourcing) in order to avoid competition as the procurement method used did not fulfill any of the two conditions set Act in section 74(2)(b) of Public Procurement and Disposal Act, 2005.

ii. The management responded that the purchase of the vehicles was done using Government contract agreement which however was not made available for verification. Consequently, the County Government may have acquired the vehicles at uneconomical and exorbitant prices.

Recommendation

The procurement laws and regulations should be adhered to in future in order to promote the integrity, fairness and increase transparency and accountability in the use of public funds.

3.2.3. Rehabilitation of Kisumu Moi Stadium

i. The County Government during the year awarded contracts with a total cost of Kshs.8,438,616 to several firms for the rehabilitation works which include construction of a dressing room, fencing, parking building, painting and cleaning at Moi Stadium Kisumu.

ii. Prior to this expenditure, the stadium had been renovated by the Ministry of Sports at a cost of Kshs.56,212,484 and included of re-construction of a perimeter wall and installation of flood lights. It was therefore not clear why the County Government had to spend on renovation of the stadium which had just been done by the Ministry of Sports of the National Government.

iii. It could not be confirmed whether procured works were done through a competitive process as procurement documents including, tender opening minutes, evaluation minutes were not availed for audit review.

iv. The County granted a County Executive Member an imprest of Kshs.500,000 for the painting, renovation, cleaning and other works in the stadium. The imprest was not fully and properly accounted for.

v. The Bill of Quantities, progress reports, inspection and acceptance certificates for the work done were not made available for audit verification.

vi. It was observed that the expenditure had not been budgeted for in the year 2013/2014 and no authority for budget revision from the County Assembly was made available for audit verification.

Recommendations

i. The County management should in future prepare a supplementary estimate and seek authority from the County Assembly for any intended expenditure not included in the original estimates.

ii. All expenditure should in future be supported with official documents and should be in accordance with the procurement laws and the Government Procurement Regulations.

iii. The County management should ensure that there is due diligence in carrying out all contracts and also ensure compliance with clearly defined terms and conditions of contracts.

iv. The imprest of Kshs.500,000 which was not properly utilized should be recovered from the County Executive Committee (CEC) Member.

3.2.4. Payments for Goods not Delivered

The County Government paid a supplier Kshs.1,036,460 for the supply and installation of deep freezers and solar panels at various market Centers. Audit verification revealed that the deep freezers and solar panels had not been installed at the time of audit as stated in the final payment certificate. The markets include Riat , Ogenya, Ahero, Nyamware and Pap Onditi.

Recommendation

The County Government should take appropriate action as per section 203(1) (a) of the Public Finance Management Act, 2012 if the said payments are confirmed not to be genuine or are fraudulent.

3.2.5. Supply of Murram for Gravelling

A supplier was paid Kshs.2,970,000 for the supply of Murram for gravelling Sondu-Kusa road. The supplier was not prequalified for supply of murram and no quotations were raised for the same. Further, the inspection and acceptance certificates for receipt of the murram were also not availed for audit verification**.** It was therefore not possible to confirm that the murram was delivered in accordance with the orders issued.

Recommendation

The County Government should take appropriate action as per section 203(1) (a) of the Public Finance Management Act, 2012 if the said payments are confirmed not to be genuine or are fraudulent.

3.2.6. Procurement of Land and Camp Site

During the financial year under review, the County Government procured land and camp structures from a Corporation at a cost of Kshs.12,500,000. The land LR No. SOUTH/NYAKACH/KOGUTA WEST/5124 measuring 3.129 hectares was valued by Ministry of Lands. There were however no minutes and resolutions to support the purpose of the purchase of the land and other structures standing on it. The purpose for which the land was bought was not disclosed.

Recommendations

In future, the County government should purchase land and other related facilities with a specific purpose in order to deliver its core mandate.

3.2.7 Projects Implementation and Status

i. During the year under review, the County Government entered into contracts with various contractors to undertake various projects and incurred expenditure totalling Kshs.81,000,194, accounting for only 2% of total budgeted expenditure of Kshs.4,426,120,010.

ii. The County Government through public notice in a daily newspaper dated 22 December 2014 listed projects which had not commenced within a period of six months from the date of award and had been cancelled.

iii. A physical verification exercise in February 2015 revealed that numerous projects had not started despite the fact that by the time of this audit, it was eight months into the financial year.

iv. The delay in completion of projects and the large number of stalled projects indicates that the capacity of the contractors appointed by the County Government appear doubtful.

Recommendation

The County management should ensure that there is due diligence in evaluating contracts before they are appointed.

3.3 CURRENT LIABILITY

3.3.1. Loan Facility and Related Charges

Analysis of the availed bank statements, Cash book and other correspondences revealed that in the month of August 2013, the County Government, took a bank loan from M/s. Family Bank-Kisumu of Kshs.13,032,474. This loan was to finance transport and accommodation of the members of the County Assembly who were going on safari to Uganda, Europe and Nairobi on diverse dates as follows:

Date	Payee	Description	Amount	Purpose
21/08/2013	Not disclosed	Cash withdrawal	2,000,0000	Various payees
22/08/2013	Not disclosed	Cash withdrawal	9,899,974	MCAs to Uganda and others to Europe
13/09/2013	Not disclosed	Cash withdrawal	1,132,500	Clerk and Majority leader to Netherlands
		Total	**13,032,474**	

The following anomalies were noted:

i. The County Government incurred negotiation fees and debit interests arising from loan and overdraft facilities at its Family Bank-Kisumu Branch A/c No.025000025445 of Kshs.1,097,100.

ii. Cash withdrawal of Kshs.13,032,474 was not entered or processed through the cash book IFMIS system during the year under review contrary to section 147(d) of the Public Finance Management Act, 2012.

iii. The authority from the National Treasury or County Assembly authorizing the acquisition of the bank loan was not availed for audit verification.

iv. Cash withdrawals were not processed through imprests to be accounted for after the travel.

Recommendations

Over commitment of financial resources resulting into expensive financing facilities to meet day to day obligations should be avoided and prior appropriate financing arrangements should be made.

In future all withdrawals must be through cheques or e-payment systems which must be supported with payment vouchers or imprest warrants and same should be posted to the cashbook/IFMIS.

3.4 EXPENDITURE REVIEW

3.4.1. Procurement of Drugs

The County Government procured pharmaceutical and non-pharmaceutical drugs from a Hospital at Kshs.26,916,894. However, Management indicates it was through open tender but documentation was not availed for audit verification. M/s. Elm

pharmacy Kshs.1,783,650, M/s. Pressure Point Systems supplied chemicals for Kshs.2,638,500 Laborex Kenya Limited Kshs.401,117, Jochem Supplies Ksh1,230,700, Wasmig Ventures Posun Kshs.967,750 Investments Ksh.921,250 and M/s. Dns Ltd Kshs.797,400. These suppliers though were prequalified, but the quotations and subsequent processing documents were also not availed for audit verification. Further, the inspection and acceptance certificates and stores records for receipt of the drugs were also not availed for audit verification.

Recommendations

The Public Procurement and Disposal Act, 2005 and related Regulations of 2006 should be followed to ensure that goods are procured competitively and at the most economical prices.

The management should in future provide supporting documents and inspection report as a proof of the receipt and quality of the suppliers.

3.4.2. Procurement of Consultancy Services

i. The County Government incurred a total expenditure of Kshs.8,664,400, being payments made to various consultants: M/s. Add property consultants Kshs. 6,650,000, M/s. Rodi Orege & Co advocates Kshs.198,500 and John Opiyo Kshs.493,500. The payments were made for valuation of assets, legal services and review of financial systems respectively.

ii. The County Government procured and paid Haddock & Associates Kshs.7,034,688 for an advertisement done by Kenya under a new horizon Chinese edition but it was not clear what type of the edition this was or even the targeted clientele. The County may not have received value for money in the advertisement done by Kenya under a new horizon Chinese edition.

iii. The County Government made a payment of Kshs.1,508,000 to Cosmopolitan Media Ltd in respect of payment for County cover story, County feature and investment in the Governor magazine.

iv. The County awarded consultancy contract to M/S Visionary Leadership and Managements Ltd for Kshs.2,800,000 to offer recruitment and selection services of new employees for Kisumu County Assembly. It could not be established whether the firm was contracted or sourced competitively since the subject file was not availed for audit examination. A payment of Kshs.1,299,200 was however made.

Procurement of all the consultancy services was done directly, contrary to section 76 of Public Procurement & Disposal Act, 2005. In addition, no opening, evaluation, and award minutes and payment vouchers were produced for audit.

Under the circumstances, the process was not competitive, contrary to section 2 of PPD Act, 2005 and therefore there was no economy, efficiency or evidence of the payees.

Recommendation

All future procurement of services should be done in accordance with the Public Procurement and Disposal Act, 2005 and related 2006 Regulations to ensure full accountability and fairness in the whole process.

3.4.3 Preparation of Financial Statements for five Defunct Local Authorities

i. In the year under review, the management paid Retco Management consultants Kshs.1,440,000 for the preparation of financial statements for five (5) defunct local authorities. Management could not explain how the firm was identified and how the amount paid was determined. Moreover, the staff of the defunct Local Authorities who could as well prepare the financial statements had been absorbed by the County Government. There were no clear and proper terms of reference and the financial statements as prepared had pending queries and require amendments which the consultancy and management had not done in the last eight months.

ii. The consultant prepared the financial statements for ten (10) months period ending 30 April 2013 as opposed to eight (8) months period ending 28 February 2013 as required by Ministry of Local Government Circular Ref. MLG/1333/TY/52 dated 18 February 2013 which dissolved all Local Authorities with effect from 28 February 2013 and transferred their services to the devolved Governments with effect from 4 March 2013.

Recommendation

The Public Procurement and Disposal Act, 2005 and relevant regulations should be adhered to when procuring consultancy services.

3.4.4. Payments to the Council of Governors

In the year under review the County Government paid Kshs.9,504,018 to the Council of Governors. The Council of Governors was created under the Inter-Governmental Relations Act, 2012 Section 19. The expenditure of the council as provided for by Section 37 of the Act shall be provided through annual estimates of the Revenue and Expenditure of the National Government. Consequently, the propriety of the transfers to council of Governors could not be determined.

Recommendation

The County Government should liaise with the National Government for a refund or recoveries be instituted from the authorized officers.

3.4.5. Procurement of Tour and Travel Services

Examination of the County Executive expenditure records revealed that the County Government incurred a total of Kshs.3,005,530, being payments made to M/s. Elusco Tours & Travels Co. Kshs.2,634,650, M/s. Business & Leisure Travel Kshs.139,565, M/s. Tonyway Travels Kshs.69,600 and M/s. Uniglobe Northline Travel Kshs.161,715. Though the management asserts that these firms were

prequalified, no evidence was provided for audit verification and it is not clear what official duties the officers were attending to. In the circumstances, it was not possible to confirm whether full value for money spent was received.

Recommendation

The Public Procurement and Disposal Act, 2005 and related Regulations of 2006 should be followed to ensure that services are procured competitively.

3.4.6. Procurement of Fuel

During the period under review, the County Government procured fuel worth Kshs.26,766,348 from two firms namely M/s. Berlin Equipment for Kshs.24,766,348 and from National Oil of Kenya for Kshs.2,000,000. From verification, it was noted that M/s. Berlin Equipment does not own a pump station or fuel storage facilities. Though the County Government indicated that they were pre-qualified by Kisumu East District, no attachment to support the prequalification was made available. Further, the fuel register was not properly maintained, work tickets for various vehicles had numerous mistakes, there was no reconciliation of fuel purchases against recorded official travels and consumption of fuel. Also, the actual fuel drawn was not the same as the fuel paid for since the fuel statements issued from the supplier indicated more fuel drawn than what was shown in the work tickets, raising concerns on the accuracy of the work tickets. The county government could therefore not account for the fuel paid for.

Recommendation

Fuel like any other stores should be taken on charge in the bulk fuel register, preferably at the point of receipt and detail orders, delivery notes and vehicles' work tickets should be properly maintained and reconciled.

3.4.7. Goods not Taken on Charge

The County Government did not record all receipts to stores ledger for purchases of goods amounting to Kshs.31,278,047. Receipts and issues from stores were not supported by Form S. 11, S. 12 and S.3 card hence the County Government may have paid for goods not delivered.

Recommendation

The County should support and take on charge all goods received and in future ensure that store controls are in place to account for receipts of goods and items in line with Government financial regulations and procedures.

3.4.8. Payment to a Court Award

The County government paid M/s. Gulf Fabricators Ltd Kshs.13,067,928 being court award on a case M/s. Gulf Fabricators Vs Municipal Council of Kisumu. The

payment was wrongly recorded in the Cash book as civil work and infrastructure. The file did not have the background of the case or evidence of defense and ruling. It is not clear why the payment was made without considering the option of an appeal against the court award. There was no legal opinion sought and provided by a lawyer indicating that the county government would not win in case of an appeal.

In the circumstance, it was apparent that the funds were misallocated and the non-disclosure of the nature of the case may be construed to mean that the County Government may have paid for a service not rendered.

Recommendation

The County Government should in future file defense and appeals from primary court ruling for future reference and review.

3.4.9 Hire of Excavator

The County Government hired an excavator from Ministry of Infrastructure and Transport and paid Kshs.1,917,600 for road works within the County. The following was noted:

i. The payment voucher was not properly supported with relevant documents.

ii. No miscellaneous receipt for revenue generated by the Ministry was availed for audit verification.

iii. There were no inspection and acceptance certificates on delivery of services contrary to section 17 of Public Procurement & Disposal Regulations 2006.

iv. Work plan and work tickets for operations were not made available for audit verification.

Consequently, it was not possible to confirm whether the services were rendered.

Recommendation

The accounting officer should ensure that the County Government has adequate systems and procedures in place to plan for, procure, and account for services.

3.4.10 Payment for the Governor's Accommodation, Rent, Car Hire and Related Services

The County Government paid Kshs.20,910,169 to Royal City Hotel for the Governor's full board accommodation, rent, car hire and other hotel services. The expenses are detailed as follows:

➢ Full board accommodation	Kshs.	4,063,259
➢ Car hire & fuel expenses	Kshs.	5,552,912
➢ Other hotel expenses	Kshs.	678,181
➢ Unsupported Payment paid to the Hotel	Kshs.	9,213,315
➢ Rented house in April 2013	Kshs.	540,000

- Rented house at United Millers in July 2013 Kshs. 862,500

Total **Kshs. 20,910,169**

The following anomalies were noted:

i. A house was rented for the Governor where Kshs.540,000 rent for the months of April, May and June 2013 was paid but tenancy agreement was cancelled and management explained that the payment was refunded. However, no tenancy agreement and evidence of refund was availed for audit review. The Governor's accommodation expenses totalling Kshs.3,511,135 between April to June 2013 represent double payment for accommodation since there was no evidence of refund of Kshs.540,000.

ii. The Governor with effect from 9 July 2013 moved into a rented premises where the County Government paid a monthly rent of Kshs.250,000. However, the County Government was billed and paid Kshs.552,124 for full accommodation at the hotel between 9 July 2013 and 1 August 2013 resulting in double accommodation for the period.

iii. The hotel, besides full board accommodation, also hired out one (1) car for daily operations for the Governor at the rate of Kshs.25,000 per day excluding value added tax (VAT) and fuel expenses. The total expenditure for the car hire and fuel expenses totaled Kshs.5,552,913 for the period May to September 2013. However, there was no contract agreement and it was not clear how the hotel was identified and awarded the contract. Further, it was not clear why the County Government hired car services and incurred fuel expenses yet the Governor was assigned three (3) motor vehicles transferred from the defunct Local Authorities whose work tickets indicate were being used by the Governor.

iv. Payment vouchers totalling Kshs.9, 213,315 paid to the hotel where the Governor was being accommodated were not made available for audit verification. Consequently we could not confirm the propriety of the payments.

It was not possible to ascertain why the Governor could not occupy the official residence of the former mayor of the now defunct Municipal Council of Kisumu so as to save on the costs now being incurred for his hotel accommodation and tenancy charges on rented premises.

Recommendations

i. The County Government should consider the likely savings to be made if the Governor of Kisumu was accommodated in the official residence of the former mayor of the now defunct Municipal Council of Kisumu.

ii. The management should institute recovery of the apparent double payment of Kshs.1,092,124 and adhere to procurement laws and regulations in future.

iii. The management should in future ensure that payment vouchers are properly filed per item for ease of examination, future reference and review.

3.4.11 Unsupported Payments

Examination of payment vouchers with a sum of Kshs.121,194,088 made to various suppliers revealed that the payments were made without proper supporting documentation and delivery of goods and services could not be confirmed. Further, the payment schedules were not attached to vouchers and in some cases were not supported with the budgets and therefore it was difficult to confirm if the payments were made to the right payees and how the funds were utilized. It was not possible to vouch the said expenditure and confirm whether it was a proper charge on the County funds.

Recommendation

In the absence of appropriate supporting documents for the payments made, the management should recover the expenditure of Kshs.121,194,088 from the concerned officers.

3.4.12 Payment of Subsistence Allowances

The County granted officers imprests totalling Kshs.6,372,352 in respect of subsistence allowances but upon surrender no supporting documents were attached. Further, the County did not maintain an imprest register to record the same. The amounts of money being held in imprest represent services denied to the public and there is a high risk that the funds were not utilized for the intended official purposes. Propriety of the imprests could not therefore be confirmed.

Recommendation

The County Government should ensure that all expenditure conforms to the requirements of financial regulations and procedures and that all payments are properly supported and fully accounted for.

3.4.13 Double Payments

The County made double payments to five officers, all totaling Kshs.171,500 for attending an IPPD Training at Kenya School of Government on 6 to 11 October 2013. The officers were paid full per diem by the County whereas full board accommodation was also paid by the Directorate of Public Service leading to double payment.

Recommendation

The over-payment of Kshs.171,500 should be recovered from the five (5) officers.

3.5 REVENUE RECORDS

3.5.1. County Revenue

A. National government

The County Government received total revenue of Kshs.4,550,936,547 from the National government in the year under review against a budgeted amount of Ksh4,866,678,745 representing 94% performance. However Kshs.627,315,224 was retained by Treasury at the end of the financial year 30 June 2014. The Management explained that the retention was in respect of Salaries and other emoluments paid to devolved staff by various ministries from between July 2013 to December 2013. However, no joint reconciliation was carried out to confirm the actual amount which ought to have been transferred since the personal files of the devolved staff, particularly health, had not been forwarded to Kisumu County Government from the respective parent Ministries.

B. Local Source revenue

The County Government realized total local revenue collections of Kshs.526,479,919 against revised budgeted local revenue of Kshs.1,800,739,230 from sub-Counties and the City of Kisumu. This represents 29% performance and no explanation was provided for the underperformance.

Recommendations

i. There is need to investigate why there is a decline in revenue collection and put measures in place to enhance revenue collection such as deploying competent staff in manning revenue collection points.

ii. The County Government should enhance revenue collection from the regular sources and explore new sources of revenue such as increasing charges for rates and plot rents and also automating revenue collection to avoid cash payment receipts/collections.

3.5.2. Under banking

The County Government collected revenue totalling Kshs.526,235,506 and banked Kshs.492,479,919 leading to an under banking of Kshs.33,755,587 contrary to section 109(2) of the Public Finance Management Act, 2012. The amount not banked was explained by the management to have been spent directly but the County Government did not avail any documents in support of the expenditure made directly. It was not possible to ascertain/confirm whether the amount of Kshs.33,755,587 not banked was properly utilized and accounted for.

Recommendations

Proper systems should be put in place to ensure prompt revenue collection, recording and banking in accordance with the Public Finance Management Act, 2012 to avoid future loss or misappropriation of public funds.

3.5.3 Unprocessed Payment Vouchers (IOU)

A cash survey carried on 12th July 2014 revealed that County employees had borrowed cash from the chief cashier totalling Kshs.31,155,527 on diverse dates. An amount totalling Kshs.26,930,499 was spent at source as IOUs contrary to the financial regulations and the balance of Kshs.4,224,758 has not been refunded or could not be accounted for. In the absence of payment vouchers clearly supporting the IOUs, it was not possible to determine the authenticity of payments made.

Recommendations

The County management should streamline the collection recording and accountability of revenue in accordance with the existing Financial Regulations and prudent management practices.

The County Government should institute recovery action of un-surrendered IOUs amounting to Kshs.4,224,758.

3.5.4 Non-Remittance of Revenues Collected by Devolved Functions to County Revenue Fund Account

Comprehensive Revenue from devolved functions by the County has not been achieved as at 30th June 2014, the following are among the devolved functions:

A. Health Sector

Devolved health facilities Revenue Collections amounted to Kshs.279,676,506 during the year under review. However, the same were used at source and not transferred into the County revenue Fund Account contrary to the section 109(2) of the Public Financial Management Act, 2012.

Recommendation

All revenue collections need to be banked intact and transfers made to County Revenue Fund as stipulated in the Public Financial Management Act, 2012.

B. Agriculture, Livestock, Fisheries and Veterinary

I. Agricultural Mechanization Services component

i. The Agricultural Mechanization Services realized revenue collections from December 2013 to June 2014 totalling Kshs.1,292,838 on the hire of 8 tractors purchased by the County Government during the year. However, the tractor ploughs an acre at the rate of Kshs.1,500 payable by the one hiring it but the amount receipted is Kshs.250 and the rest goes to fuel and tractor operators. It was not possible to match the receipts and expenditure because

the related expenditure for fuel and tractor operators were not made available for audit verification.

ii. The amount of Kshs.1,292,838 was collected but only Kshs.732,000 was transferred into the County Revenue Fund Account by 14th May 2014, while the bank balance of Kshs.466,606 had not been accounted for.

II. Veterinary Livestock, Fisheries

i. Vetenary Department had during the year collected Kshs.1,288,472, however only Kshs.918,000 was transferred into the County Revenue Fund Account to on 15th May 2014 with a bank balance of Kshs.370,472 not yet deposited or accounted for.

ii. Fisheries Department had not transferred Kshs.180,340 to the County Revenue Fund Account.

iii. As at 30 June 2014 the Maseno Agricultural Training Centre had not transferred to the revenue Fund Kshs. 691,146 and the same could not be accounted for.

In the absence of detailed revenue collections from all devolved functions, it was not possible to ascertain the amount collected during the year under review.

Recommendations

i. Management should recover Kshs.1,528,224 from concerned officers the unaccounted for revenue as this borders on fraudulent transactions.

ii. In order to support the County budget, it is expected that all money raised and received by and due to the County Government be banked in the County Government Revenue Fund Account as per Article 207(1) of the Constitution of Kenya 2010 and the Public Finance Management Act, 2012. All the accounts should be confirmed closed by devolved entities.

iii. The County Government should establish the amount of revenue collections from the devolved functions for follow-up.

3.5.5 Cash Loss through Theft

Thieves broke into the City of Kisumu offices on 15 March 2014 and stole Kshs.3,021,984 (Cash Kshs.2,349,105 and Cheques Kshs.672,879). The management hired Deloitte and Touché audit firm to carry out investigations on the circumstance surrounding the theft of cash and make necessary recommendations for action. The management did not provide tender documents to ascertain, how the firm was identified and awarded the contract together with agreed contract price despite incurring hotel expenses of Kshs.280,000.

Loss of County Government's much needed resources in unclear circumstances is a demonstration of lack of controls on the same. Consequently it could not be determined whether the government got value for money spent on hiring the firm.

Recommendation

The County Government should review the systems of controls governing accountability and custody of cash to forestall such loss of cash occurring. In addition, the shortages need to be investigated and those involved made to account.

3.6 HUMAN RESOURCE MANAGEMENT AND PAYROLL

3.6.1. Payment to the County Executive Committee Members

i. An audit review of the payroll revealed that the County Executive Committee members on 10 June 2013 were all placed at the maximum salary point of the salary scale band. The salary scale attached to their posts starts from Kshs.225,000 to a maximum of Kshs.300,000 and the SRC indicated that they would enter at the minimum point. However, their letters of appointment stated that the entry point is Kshs.300,000 which is contrary to Salaries and Remuneration Commission circular and Kenya Gazette vide Vol.CXV-No.33 dated 1 March 2013 leading to an overpayment of Kshs.1,350,000.

ii. The County Government paid the maximum salary for the months of June and July 2013, however in the month of August 2013, the payment to the executive reverted back to the minimum of Kshs.225,000 per month. The County Government introduced an extraneous allowance of Kshs.60,000 per executive member per month for the nine (9) executive members, translating to Kshs.540,000 per month to cover the shortfall of their pay. However, authority to pay the extraneous allowance from SRC was not availed for audit verification leading to overpayment of Kshs.5,940,000 in unauthorized payment of extraneous allowance, over the period of August 2013 to 30 June 2014.

iii. The County Secretary also received extraneous allowance of Kshs.60,000 per month with effect from October 2013 to March 2014 totalling Kshs.360,000.

The extraneous allowances were processed and paid using the payment vouchers and not through the payroll as is the normal practice. The County Government incurred a total expenditure of Kshs.1,350,000 and Kshs.6,480,000 respectively in overpayment of salary and extraneous allowance.

Recommendation

The County Executive should take appropriate action by adopting the correct salary entry points for the executive members and the irregular payments totalling Kshs.7,830,000 be recovered.

3.6.2. Recruitment of Employees

The County recruited twenty three (23) new members of staff during the financial year 2013/2014. However, there were no advertisements for the posts. Further, the

appointments were done before the County Public Service Board came into existence (Appointed on 28 November 2013).

In addition, there was no evidence of the creation of the offices by the County Public Service Board and no budgetary provisions were made for the recruitment.

The recruitment contravenes section 66 of the County Government Act No.17 of 2012 and hence additional financial burden to the County Government which compromises on delivery of other essential services.

Recommendations

Recruitment and placement of staff should also adhere to the requirements of Section 66 of the County Government Act. No.17 of 2012 which states that the County Service Board shall invite applications through advertisements and other modes of communications so as to reach as wide a population of potential applicants as possible. Further, Article 10 (2) (c) of the Constitution of Kenya which provides for to good governance, integrity, transparency and accountability should be adhered to or complied with.

3.6.3 Absorption of Contract staff under Economic Stimulus Programme (ESP)

i. The County payroll for the month of April, May and June 2014 revealed that ESP health workers had not been absorbed into the County's payroll as at 30th June, 2014 as per Cabinet Secretary for Health Letter Ref.No. MOH/ADM/1/1/130/VOL.I/ (52) dated 24th January, 2014. According to the letter addressed to the Governor of Kisumu, the County was expected to process the absorption of ESP health workers since the staff were performing devolved functions.

ii. Examination of the County's compensation of employees revealed that Kisumu County spent Kshs.38,133,424 to pay for casual employees against a budget provision for payment of casual labour under headquarters of Kshs.2,760,000 leading to excess expenditure of Kshs.35,373,474

Recommendations

The County Government should confirm whether the ESP health workers are to be absorbed on permanent terms or terminate their services.

Excess budget should be authorized by the County Assembly.

3.6.4. Payment of Allowance to Executive Members

The County Government made payments of Kshs.360,000 on 16 July 2013 to each executive member in respect of allowance for attending human resource committee for 30 days. The total payment to ten (10) executive members translates to Kshs.3,600,000 . Although management has indicated that the payment was for the accommodation and settlement when the CECs took up their new responsibilities, no approval from Salaries and Remuneration Commission was availed for audit verification.

Recommendations

The County Government should ensure that all expenditures conform to the requirements of government financial regulations and procedures and ensure that all payments are properly supported.

The County Government should make recoveries of the allowances amounting to Kshs.3,600,000.

3.6.5. Payment of Accommodation & Extraneous Allowances to Acting Chief Officers

The Acting Chief Officers in the month of October 2013 were paid accommodation and extraneous allowances totalling Kshs.2,511,000. No authority from Salaries and Remuneration Commission authorizing the payments was availed for audit verification. The payments were made contrary to Public Service Human Resource Manual section F sub section F. 2. on allowances which states that an officer travelling on duty is required to stay overnight away from permanent station and make his own arrangements for boarding and lodging. The propriety of the allowances could therefore not be confirmed.

Recommendation

The County Government should institute recovery of Kshs.2,511,000 from the chief officers concerned.

3.6.6. Payments of Extra House and Commuter Allowances

During the year, the County Government paid top up of house and commuter allowances totaling Kshs.2,916,000 to Chief Officers deployed in the County for performing the duties of higher posts pending advertisement of the post. The officers were paid house allowance, and other remunerative allowances assigned to the higher posts contrary to Human Resource Manual and Code of Regulations. The top up of house allowance and commuter allowance were paid without authority from Salaries and Remuneration Commission and the County Government lost Kshs.2,916,000 in the irregular payments.

Recommendation

The County should institute recovery of the irregular payments amounting to Kshs.2,916,000.

3.6.7 Payments of Salaries Arrears

The County payroll summary for the month of April, May, and June 2014 revealed that Kshs.50,072,310 was paid as salaries arrears which comprised of Kshs.906,814, Kshs.2,825,240 and Kshs.46,340,256 in respect of April, May and June 2014 respectively. The Management did not provide detail breakdown and the purpose and the period to which the salary arrears relate.

There is a risk that unauthorized arrears could be paid leading to loss of Government revenue.

Recommendation

The management should institute recovery of the arrears paid to the County employees in the months of April, May and June 2014.

3.6.8 Payment of Top Up Allowances

The County paid Kshs.2,570,500 to officers seconded from various Government departments as top up allowances contrary to Sections E and J of the Civil Service Code of Regulations and Section F of the County Public Service Human Resource Manual. The County Government of Kisumu did not seek authority from Salaries and Remunerations Commission (SRC) leading to total loss of Kshs.2,570,500.

Recommendation

The County should seek authorization payment of top up allowances or institute recoveries of all the unauthorized allowances paid to various officers.

Conclusion

The county Government should implement recommendations contained in this report to ensure public resources are used in an efficient manner. This will lead to improved service delivery to the people of Kisumu County.

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AUDITOR-GENERAL

Nairobi

25 May 2015