

COUNTY ASSEMBLY OF KISUMU



THE COUNTY ASSEMBLY OF KISUMU 3 <sup>RD</sup> ASSEMBLY	
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TABLED BY:	Hon. OUKO
CLERK AT THE TABLE	Pst. David

THIRD ASSEMBLY – FOURTH SESSION  
PUBLIC ACCOUNTS AND INVESTMENTS COMMITTEE

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COMMITTEE REPORT ON THE EXAMINATION OF THE AUDITOR  
GENERAL'S REPORTS ON THE FINANCIAL STATEMENTS OF THE KISUMU  
COUNTY ALCOHOLIC DRINKS CONTROL FUND FOR THE FINANCIAL YEARS  
ENDED 30 JUNE 2021, 2022, 2023, AND 2024

Presented by;  
Hon. Ken Ouko  
Chairperson  
September, 2025

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## **1.0 CHAIRPERSON’S FOREWORD**

**Hon. Speaker,**

On behalf of the Public Accounts and Investments Committee (PICPAC), and Pursuant to Kisumu County Assembly Standing Orders 188, I wish to present to this House the report by the Auditor General on the financial statements of Kisumu County Alcohol Drinks Control Fund for the years ended 30<sup>th</sup> June 2021, 2022 and 2023 and 2024.

The County Assembly exercises oversight over County Government entities/investments and their expenditure Pursuant to Article 185(3) of the Constitution of Kenya 2010.

Article 229 (8) of the Constitution of Kenya, 2010, requires the County Assembly, within three months after receiving an audit report, to debate, consider the report and take appropriate action.

The Committee held a number of sittings during which it received written and oral evidence from the Accounting Officer on audit queries raised by the Auditor-General on the financial statements of Kisumu County Alcohol Drinks Control Fund for the Financial Years 2020/2021, 2021/2022, 2022/2023 and 2023/2024.

Hon. Speaker, for the first three consecutive financial years (FYs 2020/2021, 2021/2022 and 2022/2023), the Fund received a Disclaimer of Opinion, indicating that the Auditor-General was unable to obtain sufficient and appropriate audit evidence to form an opinion on the financial statements. In the most recent FY (2023/2024), the Fund received a Qualified Opinion, signifying that although the financial statements were fairly presented in most material respects, there were specific areas of concern that limited the Auditor-General’s ability to issue a clean (unqualified) opinion.

This trend demonstrates gradual progress but also highlights persistent weaknesses in financial management, internal controls, and compliance with the Public Finance Management framework.

Hon. Speaker, across the financial years under review, several recurring weaknesses were noted in financial management, governance, and accountability of the Fund.

The following Key issues were raised by the Auditor General across the four financial years;

1. Unsupported expenditures and revenue collections due to inadequate documentation, incomplete imprest registers, and missing ledgers or vouchers.

2. Weaknesses in cash and bank management, including unexplained variances, unsupported cash in transit, irregular borrowings, and failure to conduct regular bank reconciliations.
3. Poor asset management characterized by failure to disclose non-current assets, incomplete asset registers, lack of work-in-progress records, and cases of stolen assets without adequate follow-up.
4. Procurement irregularities such as bypassing e-procurement, use of inappropriate procurement methods, and weak supplier vetting mechanisms.
5. Budgetary and revenue management challenges, including consistent under-collection of revenue, non-automation of liquor licensing processes, and absence of a guiding strategic plan.
6. Governance lapses, including unresolved prior year audit matters, late submission of financial statements, and lack of a risk management framework.

Hon. Speaker, these issues demonstrate systemic weaknesses in financial management of the fund, internal control, and compliance with the Public Finance Management Act, 2012, the Public Procurement and Asset Disposal Act, 2015, and other applicable laws.

The committee having held meetings with both the fund management and the Office of the Auditor General, has in its recommendations emphasized on the need for the following to help the fund move a step further in its financial management and adherence to laws of public financial management;

1. Strengthened internal controls and full compliance with financial regulations.
2. Automation of revenue collection and timely submission of financial statements.
3. Proper asset and cash management, including regular reconciliations and safeguarding of public resources.
4. Full adherence to procurement laws and procedures to ensure transparency and value for money.

5. Development and implementation of a strategic plan and risk management policy to guide sustainable operations.
6. Immediate resolution of all prior year audit matters to restore public confidence in the Fund.
7. Where expenditures were unsupported even at the time of Committee deliberations, the Committee has recommended referral of such matters to the relevant oversight and investigative bodies for further inquiry into possible loss of public funds. Similarly, in instances where the Accounting Officer authorized the use of funds contrary to the law, the Committee has recommended immediate recovery of the amounts from the responsible officers

Hon Speaker, I wish to register my appreciation to fellow Honorable Members of the Committee, the Offices of the Speaker and the Clerk of the Assembly, the Committee Secretariat, and the Office of the Auditor General for the facilitation and technical support that made the production of this report possible.

Hon Speaker, on behalf of the Public Accounts and Investments Committee, I now wish to present the report on the consideration of the Auditor General's report on the Financial Statements of Kisumu County Alcohol Drinks Control Fund for the Financial Years 2020/2021, 2021/2022, 2022/2023 and 2023/2024 and urge this House to adopt it.



.....  
**Hon. Ken Ouko**  
**Committee Chairperson**

## 1.1 Establishment and Mandate of the Public Accounts and Investments Committee

**Hon. Speaker,**

The Public Accounts and Investments Committee is established under Standing Order No. 188 of the Kisumu County Assembly Standing Orders and is mandated to undertake the following functions;

- i. Examination of the accounts showing the appropriations of the sum voted by the County Assembly to meet the public expenditure and of such other accounts laid before the House as the committee may think fit;
- ii. Examination of the working of the Public Investments
- iii. Examine the reports and accounts of the Public Investments and,
- iv. Examine in the context of the autonomy and efficiency of the public investments, whether the affairs of the public investments are being managed in accordance with sound financial or business principles and prudent commercial practices.

## 1.2 Composition of the Public Accounts and Investments Committee

The Committee as currently constituted comprises the following Honorable Members,

*Table 1: Committee Membership as at September 2025*

	<b>NAME</b>	<b>POSITION</b>
	<b>MEMBERS</b>	
1.	Hon. Ken Ouko	Chairperson
2.	Hon. Tom Onditi	Vice Chairperson
3.	Hon. Habil Nyasuna	Member
4.	Hon. Seth Okumu	Member
5.	Hon. Nancy Matara	Member
6.	Hon. Rueben Rakwach	Member
7.	Hon. James Were	Member
8.	Hon. James Omollo	Member
9.	Hon Mickey Ochieng	Member
	<b>SECRETARIAT</b>	
1.	Austine Ochieng'	Committee Clerk
2.	Chrispine Oguta	Clerk Assistant
3.	Patrick Okoyo	Hansard Officer
4.	Faith Judith	Sargent-at-arm
5.	Wycliffe Owade	Researcher
6.	CPA Naboth Odero	Internal Auditor
7.	CPA Mollen Achayo	Accountant
8.	CPA Charles Ageng'o	Internal Auditor

## 2.0 LEGAL FRAMEWORK & GUIDING PRINCIPLES

### 2.1 Legal Framework

**Hon. Speaker,**

The Committee was guided by the following legal instruments;

1. **Constitution of Kenya 2010:** Article 229 (4) of the Constitution of Kenya, 2010 requires the Auditor General, within a period of six months after the end of each financial year, to audit and report, in respect of that financial year, on;
  - i. The accounts of the National and County governments,
  - ii. The accounts of all funds and authorities of the National and County governments,
  - iii. Accounts of all courts,
  - iv. The accounts of every commission and independent office established by this constitution,
  - v. The accounts of National Assembly, the Senate and the county assemblies,
  - vi. The accounts of the political parties funded from the public funds,
  - vii. The public debt and
  - viii. The accounts of any other entity that legislation requires the Auditor General to Audit

Article 229(8) further states that “*within three months after receiving an audit report, parliament or county assembly shall debate and consider the report and take appropriate action*”.

1. **Direct Personal Liability:** Article 226(5) of the Constitution is unequivocal that, if the holder of a Public Office or a political office, directs or approves the use of Public Funds contrary to the law or instruction, the person is liable for any loss arising from that use and shall make good, the loss, whether the person remains the office holder or not.
2. **Public Audit Act 2015;** Section 7 mandates the Auditor General to (i) Give assurance on the effectiveness of internal controls, risk management, and overall governance at

National and County Governments; (ii) Undertake audit activities in state organs and public entities to confirm whether or not public money has been applied lawfully and in an effective way

3. **Section 203(1) of the Public Finance Management Act, 2012** enacts that; a public officer is personally liable for any loss sustained by a County Government and is attributed to; (i) The fraudulent or corrupt conduct, or negligence of the officer or, (ii) The officer's having done any act prohibited by Sections 196, 197, and 198
  
4. **Public Finance Management Act, 2012:** Section 149 (1) of the Public Finance Management Act, 2012 which states that "*An accounting officer is accountable to the County Assembly for ensuring that the resources of the entity for which the officer is designated are used in a way that is –*
  - a) *Lawful and authorized; and*
  - b) *Effective, efficient, economical, and transparent*"

## **2.2 Guiding Principles**

**Hon. Speaker,**

In the execution of its mandate, the Committee was guided by Constitutional and statutory principles on Public Finance Management.

These principles include the following;

**Constitutional Principles on Public Finance:** Article 201 of the Constitution of Kenya 2010 provides for fundamental principles aimed at guiding all aspects of Public Finance. It states that the principles are; inter alia;

- i). Openness and Accountability including public participation in financial matters;
- ii). Public money shall be used in a prudent and responsible way; and
- iii). Financial management shall be responsible and fiscal reporting shall be clear.

The Committee considered these legal provisions and guiding principles as the basis for holding to account public officers directly and personally liable for any loss of Public Funds that may occur under their watch.

### **3.0 AUDITOR GENERAL’S REPORTS ON THE FINANCIAL STATEMENTS OF KISUMU COUNTY ALCOHOLIC DRINK CONTROL FUND FOR THE YEARS ENDED 30<sup>TH</sup> JUNE 2021, 2022, 2023 AND 2024.**

**Hon. Speaker,**

Mr. Peter Collins appeared before the Committee on four occasions to adduce evidence on the Audited Financial Statements of Kisumu County Alcoholic Drinks Control Fund for the year ended 30<sup>th</sup> June 2021, 2022, 2023 and 2024.

The Office of the Auditor General was represented by Mr. Judah Kipkoech during the meetings

#### **FY 2020/2021**

#### **Basis for Disclaimer Opinion**

#### **3.1 Presentation and Disclosure of the Financial Statements**

**Review of the annual report and financial statements submitted for audit revealed the following inconsistencies:**

- i. The acronyms and glossary of terms page has been omitted.
- ii. The Fund administration committee disclosure does not include photos or provide a concise description of each Board member’s date of birth, key academic and professional qualifications, and work experience. In addition, the disclosures does not indicate whether the Board member is independent or an executive director and which committee of the Board the member chairs where applicable.
- iii. The statement of performance against County funds predetermined objectives, corporate governance statement, and environmental and sustainability reporting are not completed in respect to the Fund but not contained details as per the prescribed template. The statement of financial performance and report of the Fund administration committee were not signed.

In the circumstances, the financial statements do not comply with the template issued by the Public Sector Accounting Standards Board (PSASB).

The statement of financial performance and report of the Fund administration committee were not signed.

In the circumstances, the financial statements do not comply with the template issued by the Public Sector Accounting Standards Board (PSASB).

## **Management Response**

*The Financial report done afresh and corrections done.*

## **Committee Observation**

That there was significant non-compliance with the Public Sector Accounting Standards Board (PSASB) reporting template, including omission of the acronyms and glossary page, incomplete disclosure of the Fund administration committee, unsigned key statements, and incomplete sections such as performance against predetermined objectives, corporate governance, and environmental and sustainability reporting, thereby undermining transparency, accountability, and statutory compliance.

## **Committee Recommendations**

- 1. That the Accounting Officer takes disciplinary action against the Accountant who failed to ensure that the financial statements were prepared, reviewed, and submitted in full compliance with the prescribed PSASB reporting template, resulting in material omissions and non-compliance.**
- 2. That the matter is unresolved**

## **3.2 Lack of Trial Balance**

The Trial balance for the fund as at 30 June, 2021 was not provided for audit verification in support of the balances in the financial statements contrary to Paragraph 27 of the International Public Sector Accounting Standards (IPSAS) 1 which requires financial statements to present fairly the financial position, financial performance and cash flows of an entity.

## **Management Response**

*Trial balance updated.*

## **Committee Observation**

The Trial balance for the fund as at 30 June, 2021 was not provided for audit verification in support of the balances in the financial statements contrary to Paragraph 27 of the International Public Sector Accounting Standards (IPSAS) 1

## **Committee Recommendations**

- 1. That the Accounting Officer must ensure adherence with Paragraph 27 of the International Public Sector Accounting Standards (IPSAS) 1 in future**
- 2. That the matter is resolved**

## **3.3 Fines, Penalties and Other Levies**

The statement of the financial performance reflects fines, penalties and other levies amount of Kshs. 15,269,400 which, as disclosed in Note 1 to the financial statements relates to license

fees collected during the year under review. However, the Fund Management did not present a register of all bars and restaurants operating in the County for Audit review. In addition, Management had not indicated how each category of the licenses was charged.

### **Management Response**

*Register of all licensed Outlets attached. Annex 1(a) and license Categories/Finance bills is in Annex 1(b)*

### **Committee Observation**

The Fund reported Kshs.15,269,400 under fines, penalties, and other levies, representing license fees collected during the year. However, Management did not provide a register of all bars and restaurants operating in the County for audit verification, nor did it disclose the basis and criteria for charging each category of licenses. This raises concerns over completeness, transparency, and accountability of revenue collection.

### **Committee Recommendations**

- 1. That the Accounting Officer should ensure that a comprehensive and up-to-date register of all licensed bars and restaurants is maintained and provided for audit verification**
- 2. That the matter is not resolved**

### **3.4. Failure to Disclose Non – Current Assets in the Financial Statements**

Review of the report of the Fund Administrator indicates major projects implemented by the Fund include Chainlink fencing of Masogo Nyangoma Treatment and Rehabilitation Centre and building of male hostels, which is ongoing. However, the following weaknesses were noted:

- i. The capital projects included in the report of the Fund Administrator have not been disclosed in the statement of financial position under property, plant and equipment.
- ii. Although an asset register was maintained, it lacked details such as accounting code of the asset, identification number, location, cost, depreciation rate, accumulated depreciation, depreciation charge for the year and net book value of the assets.
- iii. Work-in-Progress register was not maintained
- iv. Review of payment vouchers revealed that an amount of Kshs. 2,999,992 was paid to a firm in respect of construction of a male dormitory. Further, another firm was paid Kshs.2,998,136 for fencing and construction of a gate. Physical verification carried out in November,2023 revealed that the fencing and construction of the male dormitory was complete. However, the dormitory had developed cracks on the walls even before it is put into use which is a sign of poor workmanship.
- v. Another firm was paid Kshs.306,000 for supply of (9) steel cabinets. However, no inventory as well as standard assets register was maintained to record these items. In addition, the items were not tagged for the purpose of identification and accountability.

## **Management Response**

*Capital projects disclosed*

*ii) Asset Register updated*

*iii) Status report submitted – Annex I(c)*

*iv) Engineers have been briefed to up their game during project supervision to see to it that projects are completed to highest standards to avoid such weaknesses*

*(v) All the directorates' assets will be tagged both at the headquarters and in the Sub Counties.*

## **Committee Observation**

The Fund failed to properly account for and disclose non-current assets in the financial statements, as capital projects were omitted from the statement of financial position, the asset register was incomplete, no work-in-progress register was maintained, and procured assets such as steel cabinets were neither recorded nor tagged. Further, physical verification revealed poor workmanship on the completed male dormitory, raising concerns over accountability, transparency, and value for money.

## **Committee Recommendations**

- 1. That the Accounting Officer should ensure full compliance with PSASB reporting requirements by properly recording and disclosing all non-current assets, maintaining comprehensive asset and work-in-progress registers, and tagging assets for accountability. In addition, payments for projects should only be approved after thorough inspection to confirm quality of work, and contractors responsible for substandard works should be held accountable.**
- 2. That the Office of the Auditor General to monitor and report on the same in the subsequent financial years**
- 3. That the matter is resolved**

### **3.5. Unsupported Cash and Cash Equivalents Balance**

The statement of the financial position reflects a balance of Ksh.4,303,041 in respect to cash and equivalents and as disclosed in Note 3 to the financial statements. However, the bank reconciliation, board of survey report as well as certificate of bank balances were not provided for audit.

## **Management Response**

*Certificate of balance for the year ending 30<sup>th</sup> June 2021 submitted.*

## **Committee Observations**

That the reported cash and cash equivalents balance of Ksh.4,303,041 could not be independently verified, as key supporting documents including the bank reconciliation, board of survey report, and certificate of bank balances were not initially availed for audit, undermining the reliability of the financial statements.

#### **Committee Recommendations**

- 1. That the Accounting Officer should ensure that all cash and bank balances are fully supported by reconciliations, survey reports, and official bank confirmations at year-end, and that these documents are promptly submitted for audit verification to enhance transparency and accountability.**
- 2. That the matter is resolved**

#### **3.6. Unsupported Expenditure General Expenses**

The statement of financial performance reflects an amount of Kshs. 11,146,359 in respect to general expenses as disclosed in Note 2 to financial statements. However, the ledgers and schedules were not provided for audit verification. In addition, fuel and oil costs expenses of Kshs.300,000 was not supported by payment vouchers, fuel register and motor vehicle work tickets while nature of other expenses amounting to Ksh.7,855,359 which accounts for 70% of general expenses was not disclosed.

#### **Management Response**

*Ledgers and schedules updated. Fuel Register submitted*

#### **Committee Observation**

That the fund incurred general expenses amounting to Kshs.11,146,359 as disclosed in Note 2 to the financial statements. However, supporting ledgers and schedules were not availed for audit, and fuel and oil costs of Kshs.300,000 lacked payment vouchers, fuel register, and work tickets.

#### **Committee Recommendations**

- 1. That administrative action be taken against the Accountant who failed to maintain and provide proper supporting records, including ledgers, schedules, payment vouchers, fuel register, and work tickets, thereby resulting in unsupported expenditure of Kshs.11,146,359.**
- 2. That the matter is resolved**

### **3.7. Unsupported Reserves**

The statement of financial performance reflects a balance of Kshs.180, 000 in respect to reserves and the same amount is reflected in the statement of changes in net assets as opening amount for accumulated surplus. However, this balance has not been explained or supported.

#### **Management Response**

*This is the amount carried forward from the previous FY ending 30th June 2020.*

#### **Committee Observation**

The financial statements reflect a balance of Kshs.180,000 in respect of reserves, carried forward as accumulated surplus. However, the amount was not supported by documentation or explained in the notes to the financial statements, thereby casting doubt on its accuracy and compliance with disclosure requirements.

#### **Committee Recommendations**

- 1. The Accounting Officer should ensure that all reserve balances are adequately supported with detailed schedules and reconciliations from prior years, and that proper disclosures are made in the notes to the financial statements in line with PSASB requirements. Officers responsible for failing to provide supporting documentation should be held accountable**
- 2. That the matter is resolved**

### **3.8. Budgetary Control and Performance**

The statement of comparative budget and actual amounts reflects final expenditure budget and actual on a comparable basis of Kshs. 15,376,000 and Kshs. 11,146,359 respectively resulting to an under expenditure of Kshs. 4,229,641 or 28% of the budget.

The underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

#### **Management Response**

*Several activities was affected by Covid-19 pandemic. We had to adjust to near normal as per frequent directives by the Ministry of Health. Most outlets operated under strict conditions while most outlets also closed.*

#### **Committee Observation**

That the fund recorded an under-expenditure of Kshs.4,229,641 (28% of the approved budget), which negatively affected the implementation of planned activities and may have undermined service delivery to the public. While Management attributed the underperformance to disruptions caused by the Covid-19 pandemic and Ministry of Health directives, the variance reflects weak budget absorption and inadequate mitigation measures.

#### **Committee Recommendation**

**That the matter is resolved**

### **3.9. Late Submissions of Financial Statements**

The Kisumu County Alcoholic Drinks Control Fund annual report and financial statements for the year ended 30 June, 2021 were submitted to the Office of the Auditor General on 15 November, 2023 which is approximately 13 months late. This is contrary to Section 47(1) of the Public Audit Act, 2015 which states that the financial statements required under the constitution, the Public Finance Management Act, 2012 and any other legislation, shall be submitted to the Auditor General within three months after the end of the fiscal year to which the accounts relate.

#### **Management Response**

*The financial statement ending 30 June, 2021 was submitted on 15 November, 2023 which was 13 months late. We normally receive an internal memo on the same from the Chief Officer Finance, Economic Planning & ICT and forward our reports to the Director of Accounting for onward transmission to the Auditor-General office. See Annex 10(a) for details.*

#### **Committee Observation**

That the Kisumu County Alcoholic Drinks Control Fund submitted its annual report and financial statements for the year ended 30 June 2021 on 15 November 2023, which was approximately 13 months late. This was contrary to Section 47(1) of the Public Audit Act, 2015, which requires submission of financial statements to the Auditor-General within three months after the end of the fiscal year

#### **Committee Recommendations**

- 1. The Accounting Officer should strengthen internal controls and ensure strict adherence to statutory deadlines by putting in place clear timelines and monitoring systems for the preparation and submission of financial statements.**
- 2. That this matter is resolved**

### **3.10 Failure to Establish Rehabilitation Facilities in Administrative Wards**

Review of the records revealed that the Fund had not established treatment and rehabilitation facilities and programs for persons dependent on alcoholic drinks in the thirty-five (35) wards out of the thirty-six (36) wards in the County. This is contrary to Section 5(1)(a) of the Kisumu County Alcoholic Drinks Control Act, 2014 which requires the Fund in collaboration with other relevant County and National Government Agencies to establish treatment and rehabilitation facilities and programs for persons' dependent on alcoholic drinks in all wards.

## **Management Response**

*Alcohol and Drug Abuse menace is a big challenge in our society. The Kisumu Drinks Control Act 2014 Section 5.1 requires the establishment of Rehabilitation facilities in all the Wards. This is practically unrealistic and unsustainable. We have started to engage stakeholders with the view of amending the Act to make it alive to the realities. Building of 35 Rehabilitation Centers in the County require both massive human and capital resources. Kisumu County also has 35 wards and not 36.*

## **Committee Observation**

That the Fund had not established treatment and rehabilitation facilities and programs for persons dependent on alcoholic drinks in 35 wards, contrary to Section 5(1)(a) of the Kisumu County Alcoholic Drinks Control Act, 2014, which mandates such facilities in every ward.

## **Committee Recommendations**

- 1. That the Accounting Officer should develop a realistic and phased strategy for establishing and/or supporting rehabilitation programs in collaboration with National Government, and development partners**
- 2. That the matter is not resolved**

### **3.11. Excess Fund Administration Expenses**

The statement of the financial performance reflects an amount of Kshs.11, 146,359 in respect to general expenses and as disclosed in Note 7 to the financial statements. However, this expenditure is 7.2% of the budget contrary to Regulation 197(1)(d) of the Public Finance Management (County Governments) Regulations, 2015 which requires a maximum expenditure of 3%. In addition, the general expenses should have been reported as use of goods and services as required by the reporting template.

## **Management Response**

*The Kisumu Alcoholic Drinks Control Fund was created via an Act of the Kisumu County Assembly 2014. Section 4 of the Act explicitly states that the Fund earnings must be used to meet both the Capital and re current expenditures. There is need to amend the Act to specify a percentage for the general expenditures.*

## **Committee Observations**

1. That the Fund incurred general expenses amounting to Kshs.11,146,359, representing 7.2% of the budget, which exceeded the allowable limit of 3% as per Regulation 197(1)(d) of the Public Finance Management (County Governments) Regulations, 2015.
2. That further, the expenditure was inappropriately classified under “general expenses” instead of “use of goods and services” as prescribed in the PSASB reporting template. While Management cited provisions of the Kisumu County Alcoholic Drinks Control Act, 2014 to justify the expenditure, the Act does not override the requirements of the

PFM legal framework, nor does it specify a percentage threshold for administration expenses.

### **Committee Recommendations**

- 1. The Accounting Officer should ensure strict adherence to Regulation 197(1)(d) of the PFM (County Governments) Regulations, 2015 by capping administration expenses within the prescribed 3% ceiling, and correctly classify such expenditure in line with the PSASB reporting template**
- 2. That the matter is resolved**

### **3.12 Lack of a Strategic Plan for the Fund**

Review of the records revealed that the Fund does not have a strategic plan and it is not clear how Management will work towards attaining the vision for the future and identify the Fund's goals and objectives. This was contrary to Section 4(2)(e) of the Kisumu County Alcoholic Drinks Control Act, 2014 which requires the fund to carry out research directly or in collaboration with other institutions. This should serve as the repository of the data and statistics related to alcoholic drinks control, develop in collaboration with other County and National Government departments strategies and plans for implementing this Act, control of alcohol abuse and any other relevant national legislation, coordinate, and support their implementation.

### **Management Response**

*Alcohol and Drug Abuse menace is a big challenge in our society. The Kisumu Drinks Control Act 2014 Section 5.1 requires the establishment of Rehabilitation facilities in all the Wards. This is practically unrealistic and unsustainable. We have started to engage stakeholders with the view of amending the Act to make it alive to the realities. Building of 35 Rehabilitation Centers in the County require both massive human and capital resources. Kisumu County also has 35 wards and not 36.*

### **Committee Observations**

That the fund lacks a strategic plan to guide its operations, goals, and objectives, contrary to Section 4(2)(e) of the Kisumu County Alcoholic Drinks Control Act, 2014, which requires formulation of strategies and plans for alcohol control in collaboration with other institutions. This exposes the Fund to the risk of operating without clear direction, measurable targets, or effective coordination in addressing alcohol and drug abuse.

### **Committee Recommendations**

- 1. The Accounting Officer should spearhead the development of a comprehensive strategic plan in line with the Kisumu County Alcoholic Drinks Control Act, 2014, incorporating stakeholder input to ensure realistic, sustainable, and measurable strategies for alcohol and drug abuse control, while addressing gaps and inconsistencies in the current legislation.**
- 2. That the matter is not resolved**

## FY 2021/2022

### Basis for Disclaimer of opinion

#### 4.1 Presentation and Disclosure of Financial Statements

**Review of the annual report and financial statements submitted for audit revealed the following inconsistencies:**

- i. The acronyms and glossary of terms page has been omitted.
- ii. The Fund administration committee disclosure does not contain photos or indicate independent or an executive director and which committee of the board the member chairs where applicable.
- iii. The Fund Management committee disclosure does not contain photos or provide a concise description of each member's date of birth, key academic and professional qualifications, and work experience. In addition, the disclosures does not indicate the main area of responsibility of each member.
- iv. The statement of performance against County funds predetermined objectives, cooperate governance statement, Management discussion and analysis, environmental and sustainability reporting, statement of management responsibilities, corporate governance statement and management discussion and analysis are not completed in respect to the Fund but contained details as per the prescribed template.
- v. The statement of financial performance and statement of financial position are signed but do not reflect the ICPAK number of the Fund Accountant as required.
- vi. Report of the trustees is not completed or signed as required.
- vii. The statement of comparison of the Budget and actual amounts does not reflect budget notes on variances between actual and budgeted amounts.
- viii. Under significant accounting policies on budget information at page 12, date of approval of the original budget by the County Assembly was not indicated.

#### **Management Response**

*The financial statement done and all corrections done.*

#### **Committee Observation**

That the matter is a recurrence of an issue already raised and addressed in the report of the previous financial year. The matter has been dully considered in the report of the previous financial year

#### **Committee Recommendation**

1. **That the issue is resolved.**

## **4.2 Lack of Trial Balance**

The Trial balance for the fund as at 30 June, 2022 was not provided for audit verification in support of the balances in the financial statements contrary to Paragraph 27 of the International Public Sector Accounting Standards (IPSAS) 1 which requires financial statements to present fairly the financial position, financial performance and cash flows of an entity.

### **Management Response**

*Trial balance redone*

### **Committee Observation**

That the matter is a recurrence of an issue already raised and addressed in the report of the previous financial year. The matter has been dully considered in the report of the previous financial year

### **Committee Recommendation**

**That the issue is resolved.**

## **4.3 Fines, Penalties and Other Levies**

The statement of the financial performance reflects fines, penalties and other levies amount of Kshs. 18,719,720 which, as disclosed in Note 3 to the financial statements relates to license fees collected during the year under review. Further, the Fund Management did not present a register of bars and restaurants operating in the County for audit. In addition, Management did not indicate how each category of licenses was charged

### **Management Response**

*i). Register of all Licensed Outlets for the financial year 2021/2022 attached. – Annex 2(b)*

### **Committee Observation**

That the Management did not provide a register of all bars and restaurants operating in the County for audit verification, nor did it disclose the basis and criteria for charging each category of licenses

### **Committee Recommendations**

- 1. That the Accounting Officer should ensure that a comprehensive and up-to-date register of all licensed bars and restaurants is maintained and provided for audit verification**
- 2. That the matter is resolved**

#### **4.4 Failure to Disclose Non – Current Assets in the Financial Statements**

Review of the report of the Fund Administrator indicates fully implemented and commissioned male dormitory costing Kshs. 3,000,000, equipping of Nyangoma Rehabilitation Centre costing Kshs. 1,000,000 and construction of Four (4) door pit latrine toilet costing Kshs, 2,000,000. However, the following weaknesses were noted:

- i. The capital projects included in the report of the Fund Administrator and their values have not been disclosed in the statement of financial position under property, plant and equipment.
- ii. Management did not provide status report as at 30 June 2022 for the said projects for audit.
- iii. Although an asset register was maintained, it lacked details such as accounting code of the asset, identification number, location, cost, depreciation rate, accumulated depreciation, depreciation charge for the year and net book value of the assets.
- iv. Physical verification carried out in November 2023 revealed that the projects had not been commissioned as indicated in the Fund Administrators report. In addition, the paint on the male dormitory wall was peeling off and cracks developing on the walls which was an indication of poor workmanship.
- v. Review of payment vouchers revealed that the total amount of Kshs. 999,880 was paid to a firm in respect of equipping Masogo Nyangoma Rehabilitation Centre. However, physical verification revealed that no inventory as well as standard assets register were maintained to record these items. Further, the items were not tagged for the purpose of identification and accountability.
- v. A total amount of Kshs. 1,098,500 was paid to a firm for supply of 2 executive chairs, 2 executive tables and 23 visitors chairs for headquarters offices. However, the inventory as well as standard assets register were not maintained to record these items. The items were also not tagged for the purpose of identification and accountability.

#### **Management Response**

- i). Capital projects at Nyang 'oma Rehabilitation Centre disclosed as in Annex 1(c) .*
- ii) Status report attached. Annex 1(c).*
- iii). Asset register updated.*
- iv). Engineers have been advised to up their supervision role for quality output of projects.*
- v). Inventory of the centre. Check Annex 4(b). Tagging will be done in the new financial year.*
- vi). Asset register updated. Tagging to be done after budget approval 2024/2025.*

#### **Committee Observation**

That the matter was dully considered in the report of the previous financial year

### **Committee Recommendation**

**That the matter is unresolved.**

### **4.5 Unsupported Cash and Cash Equivalents Balance**

The statement of the financial position reflects a balance of Ksh.3, 066,677 in respect to cash and equivalents and as disclosed in Note 11 to the financial statements. However, the bank reconciliation statement and board of survey report were not provided for audit.

### **Management Response**

*Bank reconciliation done.*

### **Committee Observations**

1. That although the financial statements of the entity had a balance of 3, 066,677 as at 30 June, 2023 in respect to cash and bank balances, the Management did not provide bank reconciliation statements, board of survey reports and certificate of bank balances to support the cash and bank balance at the time of audit and during committee deliberations. This is contrary to Section 62 (1) (b) & (c) of the Public Audit Act, 2015.
2. That the matter has been dully considered in the report of the previous financial year

### **Committee Recommendation**

**That the matter is not resolved.**

### **4.6 Unsupported Expenditure on Use of Goods and Services**

The statement of financial performance reflects an amount of Kshs. 19,956,083 in respect of use of goods and services and as disclosed in Note 7 to the financial statements. However, the ledgers and schedules were not provided for audit verification. Further, general office expenses of Kshs. 12,955,228 includes an amount of Kshs. 3,176,660 that represents payments that were not adequately supported and accounted for. In addition, the cashbook revealed that an amount of Kshs. 488,922 was paid to a firm. However, no payment voucher was provided in support of the payment.

### **Management Response**

*Ledgers and schedules updated*

### **Committee Observations**

1. That the Management did not provide supporting evidence for expenditure on use of goods and services totaling to Kshs. 3,176,660.
2. That an amount of Kshs. 488,922 was paid without a payment voucher contrary to Section 104 (1) of the PFM (County Governments) Regulations, 2015 which states that *all receipts and payment vouchers of public monies shall be properly supported by pre-*

*numbered receipts and payment vouchers and shall be supported by the appropriate authority and documentation.*

3. That the supporting documents were provided during the time of committee deliberations

### **Committee Recommendations**

1. **That in future, the Accounting Officer must ensure that all the supporting documents are provided to the auditors during the time of audit**
2. **That going forward the Management must adhere to Section 104 (1) of the PFM (County Governments) Regulations, 2015.**
3. **That the matter is unresolved.**

### **4.7 Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects budgeted revenue totaling of Kshs. 22,610,000 against actual revenue of Kshs. 18,719,720 resulting to an under collection of Kshs. 3,890,280 or 17% of the budget. Similarly, the statement reflects total expenditure budget of Kshs.22, 596,000 against an actual expenditure of Kshs.19, 956,083 resulting to an under-expenditure of Kshs.2, 639,917 or 12% of the budget.

The under-performance in this particular financial year was due to the great effects of Covid-19 pandemic, which caused most outlets to close. Also the Kisumu Bar Owners Association case no. MISC. CIVIL APPLICATION NO. E097 OF 2021barring the Kisumu County Government from charging separately for Single Business Permits and Alcoholics Drinks Control Licenses started taking effect. Outlets whose licenses expired now got reprieve from the Court Order and refused to pay for the licenses.

### **Management Response**

*The under-performance in this particular financial year was due to the great effects of Covid-19 pandemic, which caused most outlets to close. Also the Kisumu Bar Owners Association case no. MISC. CIVIL APPLICATION NO. E097 OF 2021barring the Kisumu County Government from charging separately for Single Business Permits and Alcoholics Drinks Control Licenses started taking effect. Outlets whose licenses expired now got reprieve from the Court Order and refused to pay for the licenses.*

### **Committee Observation**

The matter has been dully considered in the report of the previous year

### **Committee Recommendation**

**The matter is not resolved**

### **4.8 Late Submission of Financial Statements**

The Kisumu County Alcoholics Drinks Control Fund annual report and financial statements for the year ended 30 June, 2022 were submitted to the office of the Auditor-General on 15 November, 2023 which is approximately 13 months late. This is contrary to Section 47(1) of

the Public Audit Act, 2015 which states that financial statements required under the Constitution, the Public Finance Management Act, 2012 and any other legislation, shall be submitted to the Auditor-General within three months after the end of the fiscal year to which the accounts relate.

### **Management Response**

*The financial statement ending 30 June, 2022 was submitted on 15 November, 2023 which was 13 months late. We normally receive an internal memo on the same from the Chief Officer Finance, Economic Planning & ICT and forward our reports to the Director of Accounting for onward transmission to the Auditor-General office. See Annex 10(a) for details. We did submit our report to the Director of Accounting for submission as is normally the norm.*

### **Committee Observation**

The matter has been dully considered in the report of the previous financial year

### **Committee Recommendation**

**That the matter is unresolved**

## **4.9 Failure to Establish Rehabilitation Facilities in Administrative Wards**

Review of the records provided revealed that the Fund had not established treatment and rehabilitation facilities and programs for persons dependent on alcoholic drinks in the thirty-five (35) wards out of the thirty-six (36) wards in the County. This is contrary to Section 5(1)(a) of the Kisumu County Alcoholics Drinks Control Act, 2014 which requires the Fund in collaboration with other relevant County and National Government agencies to establish treatment and rehabilitation facilities and programs for persons dependent on alcoholic drinks in all wards

### **Management Response**

*Alcohol and Drug Abuse menace is a big challenge in our society. The Kisumu Drinks Control Act 2014 Section 5.1 requires the establishment of Rehabilitation facilities in all the Wards. This is practically unrealistic and unsustainable. We have started to engage stakeholders with amending the Act to make it alive to the realities. Building of 35 Rehabilitation Centers in the County require both massive human and capital resources. Kisumu County also has 35 wards and not 36.*

### **Committee Observation**

That the matter has been dully considered in the report of the previous financial year

### **Committee Recommendations**

**That the matter is not resolved**

#### **4.10 Lack of Strategic Plan for the Fund**

Review of the records revealed that the Fund does not have a strategic plan and it is not clear how management will work towards attaining the vision for the future and identify the Fund's goals and objectives. This was contrary to Section 4(2)(e) of the Kisumu County Alcoholic Drinks Control Act, 2014 which requires the Fund to carry out research directly or in collaboration with other institutions and serve as the repository of data. Statistics related to alcoholic drinks control, develop in collaboration with other County and National Government departments strategies and plans for implementing this Act and control of abuse and any other relevant National legislation and coordinate and support their implementation.

#### **Management Response**

*The Kisumu Alcoholics Drink Control Fund does not have functional Strategic Plan. As a matter of priority in the coming financial year, we shall set a budget for it in order to give the Fund the necessary technical direction. This will give the fund the required specific targets and the right trajectory.*

#### **Committee Observation**

The matter was dully considered in the report of the previous financial year

#### **Committee Recommendations**

**That the matter is not resolved**

## **Basis for Disclaimer Opinion**

### **5.1 Presentation and Disclosure of the Financial Statements**

Review of the annual report and financial statements submitted for audit revealed the following inconsistencies:

- i. Fiduciary oversight arrangements details are not provided.
- ii. The statement of the performance against the County Fund has predetermined objectives, corporate governance statement and management discussion and analysis were not prepared.
- iii. The statement of comparison of budget and actual amounts for the year did not contain footnotes to explain variances between actual and budgeted amounts.
- iv. Under significant accounting policies on budget information, date of approval of the original budget by the County Assembly was not indicated.
- v. There was no report on the trustees indicating principal activities and results of the Fund.
- vi. Disclosures in the financial statements are done on cash basis of accounting instead of accrual.
- vii. Report of the Fund Administrator does not agree with the details in the statement of the financial performance

## **Management Response**

*Financial statements redone and amendments made*

## **Committee Observation**

That the matter was dully considered in the report of the previous financial year

## **Committee recommendation**

**That the matter is unresolved**

### **5.2 Lack of Trial Balance**

The Trial balance for the fund as at 30 June, 2023 was not provided for audit verification in support of the balances in the financial statements contrary to Paragraph 27 of the International Public Sector Accounting Standards (IPSAS) 1 which requires financial statements to present fairly the financial position, financial performance and cash flows of an entity.

## **Management Response**

*Trial balance done*

### **Committee observation**

The Trial balance for the fund as at 30 June, 2023 was not provided for audit verification in support of the balances in the financial statements contrary to Paragraph 27 of the International Public Sector Accounting Standards (IPSAS) 1 which requires financial statements to present fairly the financial position, financial performance and cash flows of an entity

### **Committee Recommendations**

- 1. That in future, the management must ensure adherence to Paragraph 27 of the International Public Sector Accounting Standards (IPSAS) 1 which requires financial statements to present fairly the financial position, financial performance and cash flows of an entity**
- 2. That the matter is resolved**

### **5.4 Unsupported Revenue from Non – Exchange Transactions**

The statement of the financial performance reflects an amount of Kshs. 15,954,791 in respect to fines, penalties and other levies and as disclosed in Note 1 to the financial statements. However, the ledgers and schedules were not provided for audit verification. Further, the registers for successful vetted applicants from the Sub – Counties together with invoices issued for application fees and licenses were not provided for audit verification. In addition, no supporting document was provided to confirm the rates charged for licensing.

### **Management response**

*List of Outlets licensed in the FY ending 30/6/2023 attached at Annex 3(b). Categories of licenses attached/Finance bills/Regulations – Annex 1(b).*

### **Committee Observations**

1. That the financial statements reflected revenue of Kshs. 15,954,791 under fines, penalties, and other levies. However, management failed to provide ledgers, schedules, registers of vetted applicants, invoices issued for application fees, and licenses for audit verification.
2. That Although management provided a list of licensed outlets and referenced the Finance Bill/Regulations, these were not adequate to support the revenue streams, as they did not demonstrate actual collections, reconciliation, or linkages to bank deposits.

## **Committee Recommendations**

- 1. The Accounting Officer should ensure that all revenues are properly supported with ledgers, schedules, invoices, and registers in accordance with IPSAS 23 and the PFM Act, 2012.**
- 2. That the Management should immediately establish and maintain a comprehensive register of all licensed entities, linked to invoices issued, amounts paid, receipts generated, and corresponding bank deposits.**
- 3. That the matter is unresolved**

## **5.5 Failure to Disclose Non – Current Assets in the Financial Statements**

Review of the report of the Fund Administrator revealed that the Fund Management had implemented the construction of a four (4) door toilet, construction of Sentry house and Installation of the two (2) 10,000 litres tanks at Nyangoma Rehabilitation Centre. The same report also indicates that the fund had made strides towards completion of Nyangoma Rehabilitation Centre and that the female dormitory is nearing completion. However, the following weaknesses were noted;

- i. The capital projects included in the report of the Fund Administrator have not been disclosed in the statement of financial position under property, plant and equipment.
- ii. Management did not provide status report as at 30 June 2023 for the said projects for audit.
- iii. Although an asset register was maintained, it lacked details such as accounting code of the asset, identification number, location, cost, depreciation rate, accumulated depreciation, depreciation charge for the year and net book value of the assets
- iv. The Fund management did not maintain the work – in - progress register
- v. Physical verification carried out in November, 2023 revealed that the water tanks had been stolen. Although the incident was reported to the investigating authorities, the minutes of Management deliberating on the same and details on current status were not provided for audit.

## **Management Response**

- i. Annex 4(b) dated 223/01/2023 has a list of all Capital projects domiciled at Nyangoma Rehabilitation centre.*
- ii. Status Report is attached Annex 1(c)*
- iii. Asset Register Book and Extract attached*
- iv. Work in Progress Register attached at Annex 1(c)*
- v. The stolen tanks incidence report was well documented and the management is in constant communication with the investigating agency.*

## **Committee Observations**

1. That the Fund implemented capital projects, including construction of a four-door toilet, a sentry house, installation of two 10,000-litre tanks, and ongoing works at Nyangoma Rehabilitation Centre (female dormitory). Despite this, the assets were not disclosed in the financial statements under property, plant, and equipment, thereby understating the asset base.
2. The asset register maintained by management lacked critical details such as accounting codes, identification numbers, location, cost, depreciation details, and net book values, contrary to IPSAS 17 requirements.
3. That a work-in-progress register was not properly maintained to track ongoing capital projects.
4. Physical verification revealed that the water tanks had been stolen. Although reported to authorities, management did not provide minutes showing internal deliberations or updates on the current status of the case.
5. The failure to disclose capital assets and to maintain adequate records demonstrates weak internal controls in asset management and non-compliance with the Public Finance Management (County Governments) Regulations, 2015.

## **Committee Recommendations**

1. **That in the subsequent financial year, the Accounting Officer should ensure that all non-current assets are disclosed in the financial statements in line with IPSAS 17, reflecting an accurate asset position of the Fund.**
2. **That the asset register should be updated to include all mandatory details: identification codes, location, cost, depreciation method and rate, accumulated depreciation, and net book values.**
3. **A comprehensive work-in-progress register should be maintained for all ongoing projects to enhance transparency and accountability.**
4. **That the matter is unresolved**

## **5.6 Unsupported Cash and Cash Equivalents Balance**

The statement of the financial position reflects a balance of Ksh. 2,365,893 in respect to cash and equivalents and as disclosed in Note 3 to the financial statements. However, review of the cash book reflected a balance Kshs 2,375,422 resulting to an unexplained variance of Ksh. 9,529. Further, the board of survey report was not provided for audit.

## **Management Response**

*No response*

### **Committee Observations**

1. That the financial statements disclosed cash and cash equivalents of Kshs. 2,365,893, while the cash book reflected Kshs. 2,375,422, resulting in an unexplained variance of Kshs. 9,529. No reconciliation or supporting explanation was provided to account for the variance.
2. That the mandatory Board of Survey report was not provided for audit, limiting verification of cash balances.

### **Committee Recommendations**

1. **That the Accounting Officer should immediately reconcile the variance of Kshs. 9,529 and provide full supporting documentation to Office of the Auditor General**
2. **That going forward, management must ensure monthly reconciliations of cash balances are performed and properly documented.**
3. **That the matter is unresolved**

### **5.7 Unsupported Expenditure on Use of Goods and Services**

The statement of financial performance reflects an amount of Kshs. 16,655,275 in respect of use of goods and services and as disclosed in Note 2 to the financial statements. However, the ledgers and schedules were not provided for audit verification. Further, an amount of Kshs. 1,944,396 was spent on infrastructure and civil works, however no payment vouchers were provided in support of the expenditure. In the circumstances, the accuracy and completeness of the use of goods amount of Kshs. 16,655,575 could not be confirmed.

### **Management Response**

*No response*

### **Committee Observations**

1. That Ledgers and schedules supporting the expenditure of Kshs. 16,655,275 on use of goods and services were not provided for audit review.
2. That an amount of Kshs. 1,944,396 relating to infrastructure and civil works lacked payment vouchers, making the expenditure unverifiable.
3. That the absence of supporting documentation contravenes Section 149(1)(a) of the Public Finance Management Act, 2012, which makes the Accounting Officer personally responsible for ensuring proper records are kept for all financial transactions.

### **Committee Recommendations**

1. **That the matter be referred to the Ethics and Anti-Corruption Commission for further investigation into possible loss of public funds**
2. **That the matter is unresolved**

## **5.8 Inaccurate Accounting of Imprest – General Office Expenses**

The statement of financial performance reflects an amount of Ksh. 16,655,275 in respect of the use of goods and services, which, as disclosed in Note 2 to the financial statements includes general office expenses of Kshs. 13,810,971. This amount in turn includes Kshs. 5,809,330 in respect of imprests issued to various staff, which had been expensed at the point of issue and remained un-surrendered as at the time of audit in November 2023. In addition, the imprest register maintained lacked important information such as warrant numbers, imprest surrender date, and mode of surrender, amount surrendered, and balance outstanding, and the payment voucher number used to surrender.

### **Management Response**

*Surrender vouchers attached*

### **Committee Observations**

1. That an amount of Kshs. 5,809,330 was irregularly expensed at the point of issuing imprests instead of at the point of surrender, contrary to proper accounting procedures.
2. That the imprests remained un-surrendered as at November 2023, raising concerns on accountability and potential misuse of public funds.
3. That the imprest register maintained by management was incomplete, lacking critical details such as warrant numbers, surrender dates, mode of surrender, surrendered amounts, balances outstanding, and surrender voucher references.

□

### **Committee Recommendations**

- 1. That in future, imprests should only be expensed upon proper surrender with full documentation to ensure accuracy of financial reporting.**
- 2. That the Accounting Officer must establish and maintain a complete and up-to-date imprest register capturing all necessary details for accountability**
- 3. That the matter is not resolved**

## **5.9 Irregular Borrowing**

The Department of Trade, Tourism, Industry and Marketing made a borrowing of Kshs. 481,500 from the Liquor Fund on 23 January, 2023 to facilitate the CECM Trade to attend launch of a project in Nairobi. Payments were made via imprest issued to seven (7) officers. However, the amount was not refunded as at 30 June, 2023.

In the circumstances, the recoverability of the amount of Kshs. 481,500 borrowed from the Fund could not be confirmed.

## Management Response

*The money was factored in the budget and will be paid once the supplementary budget is approved. See Annex 8 for details.*

## Committee Observations

1. That the Department of Trade, Tourism, Industry, and Marketing borrowed Kshs. 481,500 from the Liquor Fund on 23rd January, 2023 for travel-related expenses without evidence of repayment as at 30th June, 2023.
2. That the practice of borrowing from the Liquor Fund is irregular and contrary to the principles of the Public Finance Management (PFM) Act, which require all expenditures to be appropriated through approved budgets.

## Committee Recommendations

1. **THAT Pursuant to Article 226(5) of the Constitution of Kenya, 2010 which states that; *If the holder of a public office, including a political office, directs or approves the use of public funds contrary to law or instructions, the person is liable for any loss arising from that use and shall make good the loss, whether the person remains the holder of the office or not,* the Chief Officer for Finance, Economic Planning and ICT immediately initiate recovery of the sum of Kshs. 481,500 directly from the personal accounts of the Accounting Officer who authorized the irregular borrowing, and ensure the amount is refunded to the Fund without delay**
2. **That in future, all expenditures must be planned and provided for in the approved budget and not financed through irregular borrowing from the Fund.**
3. **That the matter is unresolved**

## 5.10 Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects a budgeted revenue amount of Kshs.27,000,000 against actual revenue of Kshs.15,954,791 resulting to an under collection of Kshs.11,045,209 or 41% of the budget. Similarly, the statement reflects budgeted expenditure amount of Kshs.30,066,668 against an actual expenditure of Kshs.16,655,515 resulting to an under-expenditure of Kshs.13,411,153 or 45% of the budget.

## **Management Response**

*The under-performance and failure to meet the annual revenue target can be attributed the Court case MISC. CIVIL APPLICATION NO. E097 OF 2021 which stopped the County government from charging separately the Single Business Permits and Alcoholic Drinks Control Licenses! This negative turn of events was strongly spearheaded by the Kisumu Bar Owners Association hence it greatly affected this particular revenue stream. We did consult with the County Attorney office, which advised that we must adhere to the Court order, so as not to be in contempt of Court. This particular order was only lifted in June 2023. Therefore, from June 2021 to June 2023 only willing outlets paid the license fees! – ANNEX 4(a)*

*The Court Order was a big set back to the operations of the directorate. Most outlets vehemently exploited this particular order to frustrate the County activities by refusing to pay revenue. This was more rampant in the peri-urban areas and urban centers. Nyando, Kisumu East, Kisumu Central and Kisumu West were worst hit.*

## **Committee Observations**

That there was under-expenditure of Kshs.13, 411,153 or 45% of the budget

## **Committee Recommendations**

- 1. That the Accounting Officer should strengthen revenue mobilization strategies and ensure that Budget estimates are realistic and aligned with actual collection trends.**
- 2. That in future, Work plans must be fully implemented to avoid loss of service delivery opportunities**
- 3. That the matter is unresolved**

## **5.11 Late Submission of Financial Statements**

Kisumu County Alcoholic Drinks Control Fund annual report and financial statements for the year ended 30 June, 2023 were submitted to the Office of the Auditor General on 15 November, 2023 which is approximately 13 months late. This is contrary to Section 47(1) of the Public Audit Act, 2015 state that the financial statements required under the constitution, the Public Finance Management Act, 2012 and any other legislation, shall be submitted to the Auditor-General within three months after the fiscal year to which the accounts relate.

## **Management Response**

*The financial statement ending 30 June 2023 was submitted on 15 November 2023, which was 2 months late. We normally receive an internal memo on the same from the Chief Officer Finance, Economic Planning & ICT and forward our reports to the Director of Accounting for onward transmission to the Auditor-General office. See Annex 10(a) for details.*

### **Committee Observation**

That the Financial statements were submitted later than what is stipulated in law.

### **Committee Recommendations**

- 1. That in future, the Accounting Officer must ensure that financial statements are submitted to the Office of the Auditor General within three months after the end of the financial year**
- 2. That the County Treasury ensure that the fund is adequately staffed with technical staff who are adequately capacitated**
- 3. That the matter is resolved**

### **5.12 Failure to Establish Rehabilitation Facilities in Administrative Wards**

Review of records revealed that the Fund had not established treatment and rehabilitation facilities and programs for persons dependent on alcoholic drinks in the thirty-five (35) wards out of the thirty six (36) wards in the County. This is contrary to Section 5(1) (a) of the Kisumu County Alcoholics Drinks Control Act, 2014 which requires the Fund in collaboration with other relevant County and National Government agencies to establish treatment and rehabilitation facilities and programs for persons' dependent on alcoholic drinks in the thirty-five (35) wards out of the thirty-six (36) wards in the County. This is contrary to Section 5(1) (a) of the Kisumu County Alcoholics Drinks Control Act, 2014 which requires the Fund in collaboration with other relevant County and National Government agencies to establish treatment and rehabilitation facilities and programs for persons dependent on alcoholic drinks.

### **Management Response**

*Alcohol and Drug Abuse menace is a big challenge in our society. The Kisumu Drinks Control Act 2014 Section 5.1 requires the establishment of Rehabilitation facilities in all the Wards. This is practically unrealistic and unsustainable. We have started to engage stakeholders with the view of amending the Act to make it alive to the realities. Building of 35 Rehabilitation Centers in the County require both massive human and capital resources. Kisumu County also has 35 wards and not 36.*

### **Committee Observation**

That Review of records revealed that the Fund had not established treatment and rehabilitation facilities and programs for persons dependent on alcoholic drinks in the thirty-five (35) wards out of the thirty six (36) wards in the County. This is contrary to Section 5(1) (a) of the Kisumu County Alcoholics Drinks Control Act, 2014 which requires the Fund in collaboration with other relevant County and National Government agencies to establish treatment and rehabilitation facilities and programs for persons' dependent on alcoholic drinks in the thirty-five (35) wards out of the thirty-six (36) wards in the County

## **Committee Recommendations**

- 1. That the fund implores collaboration with other National Government agencies to establish treatment and rehabilitation facilities and programs for persons' dependent on alcoholic drinks in the thirty-five (35) wards out of the thirty-six (36) wards in the County as required by Section 5(1) (a) of the Kisumu County Alcoholics Drinks Control Act, 2014**
- 2. That the matter is not resolved**

### **5.13 Lack of a Strategic Plan for the Fund**

Review of the records revealed that the Fund does not have a strategic plan and it is not clear how Management will work towards attaining the vision for the future and identify the Fund's goals and objectives. This was contrary to Section 4(2)(e) of the Kisumu County Alcoholic Drinks Control Act, 2014 which requires the fund to carry out research directly or in collaboration with other institutions. This should serve as the repository of the data and statistics related to alcoholic drinks control, develop in collaboration with other County and National Government departments strategies and plans for implementing this Act, control of alcohol abuse and any other relevant national legislation, coordinate, and support their implementation.

### **Management Response**

*The Kisumu Alcoholics Drink Control Fund does not have a functional Strategic Plan. As a matter of priority in the coming financial year, we shall set a budget for it in order to give the Fund the necessary technical direction This will give the fund the required specific targets and the right trajectory to execute its mandate accordingly.*

### **Committee Observations**

That the Fund lacked a strategic plan contrary to Section 4(2)(e) of the Kisumu County Alcoholic Drinks Control Act, 2014.

## **Committee Recommendations**

- 1. That the Fund must urgently develop and adopt a strategic plan to guide operations**
- 2. That the matter is not resolved**

## **FY 2023/2024**

### **Basis for Qualified opinion**

#### **6.1 Understatement of General Office Expenditure, Committee Allowances, and Bank Charges**

The statement of financial performance reflects use of goods and services amount of Kshs. 10,447,462 as disclosed in Note 7 to the financial statements. This amount includes general office expenditure, committee allowances, and bank charges amounting to Kshs. 3, 195, 370, Kshs. 1,541,780 and 7,973, respectively. However, the ledger provided during audit indicated that general office expenditure, committee allowances, and bank charges were amounting to Kshs. 2,579,873, Kshs. 1,461,500 and Kshs. 6,045 leading to unexplained variance amounting to Kshs. 625,497, Kshs. 80,280 and Kshs. 1,928.

In the circumstances, the accuracy of the payment in the statement of financial performance could not be confirmed.

#### **Management Response**

*Ledgers and Cash book adjusted. ANNEX I*

#### **Committee Observation**

That the management understated the General Office Expenditure, Committee Allowances, and Bank Charges

#### **Committee Recommendations**

- 1. That the Accounting Officer must always ensure that the financial statements present the true and fair financial position of the fund**
- 2. That the matter is resolved**

#### **6.2 Misclassification of Maintenance of Motor Vehicle**

The statement of financial performance and as disclosed in Note 7 to the financial statements, reflects use of goods and services amounting to Kshs. 10,447,462 out of which Kshs. 3,195,370 was incurred in general office expenditure. Review of ledgers and payment vouchers provided during audit revealed that Kshs. 104,120 for maintenance service of motor vehicle was misclassified under general office expenses instead of maintenance of motor vehicle.

In the circumstances, the accuracy and completeness of the expenditure on use of goods

#### **Management Response**

*Ledgers and Cash book adjusted. ANNEX I*

#### **Committee Observation**

That an amount of Kshs. 104,120 for maintenance service of motor vehicle was misclassified under general office expenses instead of maintenance of motor vehicle

## **Committee Recommendations**

- 1. That in future, the Accounting Officer should always ensure that expenses are properly classified**
- 2. That the matter is resolved**

## **6.3 Public Participation**

The statement of financial performance and as disclosed in Note 7 to the financial statements, reflects use of goods and services amount of Kshs. 10,447,462 out of which Kshs. 1,400,000 was incurred in respect of field allowances. However, payment of Kshs. 700,000 relating to public education activity in Kisumu East Sub-County was not supported with Electronic Tax Receipts (ETR) and store ledgers.

In circumstances, the accuracy, completeness, and regularity of field allowances expenditure of Kshs. 1,400,000 could not be confirmed.

## **Management Response**

*Surrender file attached. Annex 3*

## **Committee Observations**

1. That payment of Kshs. 700,000 relating to public education activity in Kisumu East Sub-County was not supported with Electronic Tax Receipts (ETR) and store ledgers.
2. The supporting document were provided during the time of committee deliberations

## **Committee Recommendations**

- 1. That the Accounting Officer ensure that in future, all supporting documents are provided during to the Auditors during the time of audit**
- 2. That the matter is resolved**

## **6.4 Cash and Cash Equivalent**

The statement of financial position and as disclosed in Note 12 to the financial statements, reflects a balance of Kshs. 9,249,652 in respect of cash and cash equivalents. Review of cash and bank provided for audit revealed the following anomalies;

### **3. 6.4.1 Current Account**

The statement of financial position reflects a balance of Kshs. 9,249,652 in respect of cash and cash equivalents as disclosed in Note 12 to the financial statements. This amount includes current account bank balances of Kshs. 4,499,652. However, bank statement, certificate of bank balances, and bank reconciliation statement was not provided for audit review.

In the circumstances, accuracy and completeness of bank balances of Kshs. 4,499,652 could not be confirmed.

## **Management Response**

*Bank Reconciliation provided. ANNEX 4.1*

## **Committee Observation**

That Bank reconciliations were not being carried out regularly as required by the PFM Act.

## **Committee Recommendations**

- 1. That in future, the management must always ensure that bank reconciliation is done regularly as required by the PFM Act.**
- 2. That the matter is resolved**

### **4. 6.4.2 Cash in Transit**

The statement of financial position and as disclosed in Note 12 to the financial statements, reflects cash and cash equivalent balance of Kshs. 9,249,652, which includes cash in transit amount of Kshs. 4,750,000. However, no documentary was provided to support the amount.

In the circumstances, the accuracy, ownership, and existence of cash in transit of Kshs. 4,750,000 could not be confirmed.

## **Management Response**

*The above Cash in transit was borrowed in April via a letter dated 11th April, 2024, from the CECM Finance. The request letter and the relevant Bank statements are attached in ANNEX 4.2 for your perusal and confirmation.*

## **Committee Observation**

That an amount of Kshs. 4,750,000 was reported as cash in transit but had no supporting documents during the audit. The documentation was provided later, weakening reliability and accuracy of financial statements.

## **Recommendations**

- 1. That the Accounting Officer must ensure that all cash in transit are properly supported with documentation at the time of audit.**
- 2. The matter is resolved**

## **6.5 Budgetary Control and Performance**

The statement of comparison of budget and actual amounts for the period ended 30 June 2024 presents a budgeted revenue of Kshs. 27,000,000 against actual revenue of Kshs. 20,868,003 resulting to an explained under collection of Kshs. 6,131,997.

Similarly, 32% of the total Fund budget had been allocated for development, and 68% of the total fund budget allocated for operations and maintenance purposes, but from the calculations made, it was found that 32% of Kshs. 20,868,003 was Kshs. 9,397,085 and 68% of Kshs.

20,868,003 was Kshs. 19,968,807. From this, the development budget over budgeted by Kshs. 52,894 and the recurrent budget under budgeted by Kshs. 52,894 and this was explained.

The under-collection of the approved receipts budget is an indication that some activities in the annual work plan were not implemented by the fund, which may have affected the service delivery to the residents of Kisumu County, hence loss of public funds.

### **Management Response**

*No Response*

### **Committee Observations**

That there was an under-collection of Kshs. 6,131,997 against approved revenue.

### **Committee Recommendations**

- 1. That the Accounting Officer should strengthen revenue mobilization strategies and ensure that Budget estimates are realistic and aligned with actual collection trends.**
- 2. That in future, Work plans must be fully implemented to avoid loss of service delivery opportunities**

## **6.6 Unresolved Prior Year Matters**

In the audit report of the previous several issues were raised under the Report on the Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management had not resolved the issues as at 30 June 2024.

### **Management Response**

*No Response*

### **Committee Observations**

That In the audit report of the previous several issues were raised under the Report on the Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management had not resolved the issues as at 30 June 2024

### **Committee Recommendations**

- 1. That the management immediately implement all the recommendations of both the Assembly and the Office of the Auditor General in a period of 30days upon adoption of this report**
- 2. That the matter is not resolved**

### **5. 6.7 Lack of Asset Register**

Included in the statement of financial position under Note 17 to the financial statements is property, plant, and equipment amounting to Kshs. 3,536,782. However, Management did not maintain and updated fixed asset register. This was contrary to Regulation 136(1) of the Public Finance Management (County Governments) Regulations, 2015, which provides that the Accounting Officer shall be responsible for maintaining a register of assets under his or her control or possession as prescribed by the relevant laws.

In the circumstances, the existence of effective internal controls to safeguard the County Executive assets could not be confirmed.

#### **Management Response**

*The directorate has a comprehensive Asset Register, which is updated. ANNEX 4.4*

#### **Committee Observation**

That the Management did not maintain and updated fixed asset register. This was contrary to Regulation 136(1) of the Public Finance Management (County Governments) Regulations, 2015, which provides that the Accounting Officer shall be responsible for maintaining a register of assets under his or her control or possession as prescribed by the relevant laws.

#### **Committee Recommendations**

- 1. That henceforth, the management must adhere to Regulation 136(1) of the Public Finance Management (County Governments) Regulations, 2015, which provides that the Accounting Officer shall be responsible for maintaining a register of assets under his or her control or possession as prescribed by the relevant laws.**
- 2. That the matter is not resolved**

### **6. 6.8 Lack of a Strategic Plan**

Review of the records revealed that the Fund does not have a strategic plan, and it's not clear how the management will work towards attaining the vision for the future and identify the Fund's goal and objectives. These was contrary to Section 4(2)(e) of the Kisumu County Alcoholic Drinks Control Act 2014, that requires the Directorate to carry out research directly or in collaboration with other institution and serve as the repository of data and statistics related to Alcoholic Drinks Control, develop in collaboration with other County and National Government departments strategies and plans for implanting this Act and control of alcohol abuse and any other relevant national legislations and coordinate and support their implementation.

Management was in breach of the law.

#### **Management Response**

*The Fund has already put a request for the above Strategic Plan via a letter to the Chief Officer dated 17th November, 2023. However, Treasury did give a circular suspending the same including training. The same will be procured during the new FY. ANNEX*

### **Committee Observation**

That the Fund lacked a strategic plan contrary to Section 4(2)(e) of the Kisumu County Alcoholic Drinks Control Act, 2014.

### **Committee Recommendations**

- 1. That the Fund must urgently develop and adopt a strategic plan to guide operations**
- 2. That the matter is not resolved**

### **6.9 Construction of Dining Hall for Nyangoma Rehabilitation Centre**

The statement of financial position reflects property, plant, and equipment amount of cash Kshs. 3,536,792 as disclosed in Note 17 to the financial statement. This amount includes payment of Kshs. 2,999,876 in respect of the construction of the dining hall in Masogo Nyangoma rehabilitation center contract at contract sum of Kshs. 2,999,876. However, the following anomalies were noted;

- i. The contract agreement availed did not have start and end dates of the construction
- ii. Project status report was not availed to confirm the status of the project
- iii. The method of procurement approved as per the approved procurement plan was opened, tender, but the method which was used was Request for Quotations
- iv. The list of the registered suppliers/service providers/ contractors was not availed to confirm if the companies which were involved in the process were actually registered.

This was contrary to Section 91(1) of the Public Procurement and Asset Disposal Act 2015, which provides that open tendering shall be the preferred procurement method for procurement of goods, works, and services.

In the circumstances, the Management was in breach of the law.

### **Management Response**

- i. *The contract period is normally 120 days unless stated otherwise. We have also instructed the Procurement office to fix this anomaly during our future projects for ease of clarity and accountability.*
- ii. *The status report as per the year ending 30th June 2024 is attached. ANNEX 3.2*
- iii. *The procurement plan did provide for Request for Quotation. We did use a request for quotation. ANNEX 3(iii)*
- iv. *The list of all registered suppliers/service providers/contractors for the County Government of Kisumu is attached and is available online. ANNEX 3.4*

### **Committee Observations**

1. That the Contract agreement lacked timelines.
2. That the Project status report was not initially availed.

3. That the Procurement method deviated from approved plan.

#### **Committee Recommendations**

1. **That the Management must ensure that future contracts clearly stipulate start and completion dates.**
2. **That Project status reports should be maintained and regularly updated.**
3. **That Procurement should strictly follow the approved method in procurement plans**
4. **That the matter is resolved**

#### **6.10 Procurement Outside the e-Procurement**

The audit revealed a blatant disregard for the mandated e-procurement requirements, as all procurement transactions by the Department of Trade, Tourism, and Marketing for the Alcoholic Drinks Control Fund were deliberately conducted outside the IFMIS e-procurement system failure to comply with statutory regulations, reflecting severe lapses in governance, oversight, and internal control

Conducting procurement outside the IFMIS system creates opportunities for manual processes that can allow unscrupulous actors to inflate costs, bypass competitive bidding, and manipulate vendor selection to benefit specific suppliers, facilitating favoritism, manipulation of results, and conflicts of interest.

#### **Management Response**

*The Fund did get authority to do procurement offline as per the attached letters. ANNEX 4*

*The fund will strive to embrace e-procurement. Already we have submitted all the details to the Finance department and during the coming financial year the fund will do all its procurement through e-procurement*

#### **Committee Observation**

That all procurement transactions were done outside IFMIS, contravening procurement laws. The Manual processes exposed the Fund to risks of fraud, favoritism, and manipulation

#### **Committee Recommendations**

1. **That henceforth, the management must embrace e procurement. The Auditor General to follow up on this and report in the subsequent audit**
2. **That the matter is unresolved**

### **6.11 Lack of Risk Management Policy**

During the year ended 30 June,2024, the Fund had not developed a Risk Management Policy to mitigate against risk. This was contrary to. Regulations,158(1) of the Public Finance Management (County Government) Regulations,2015, which requires the Accounting Officer of the county government entity to develop risk management strategies, which include fraud prevention mechanisms; system of risk management and internal control that builds robust business operations.

Management was in breach of the law.

#### **Management Response**

*The Fund will develop a comprehensive Risk Management Strategy in the coming FY to help cushion and mitigate risk factors.*

#### **Committee Observation**

That the Fund lacks a risk management framework contrary to Regulation 158(1) of the PFM Regulations, 2015.

#### **Committee Recommendations**

- 1. That the Management should develop and implement a risk management strategy within a period of 6 months upon adoption of this report**
- 2. That the matter is unresolved**

### **6.12 Late Submission of Financial Statement**

The financial statements were submitted to the Auditor General on 12 November,2024.

This was contrary to section 47 (1) of the Public Audit Act,2015, which requires that financial statements should be submitted to the Auditor-General within three months after the end of the financial year to which the accounts relate.

In the circumstances, Management was in breach of the law.

#### **Management Response**

*This is true, but was purely not intentional, but this was due to lack of enough technical staff at our disposal to help us develop a comprehensive financial statement. We further commit to adhere to the timelines in the future.*

#### **Committee Observations**

That the Financial statements were submitted on 12<sup>th</sup> November 2024 instead of within 3 months after year-end. The management cited inadequate technical staff as the reason behind this.

## **Committee Recommendations**

- 1. That in future, the Accounting Officer must ensure that financial statements are submitted to the Office of the Auditor General within three months after the end of the financial year**
- 2. That the County Treasury ensure that the fund is adequately staffed with technical staff who are adequately capacitated**
- 3. That the matter is resolved**

### **6.13 Failure to Automate Revenue Collection**

Review of revenue documents and systems revealed that County Executive has not automated liquor licensing revenue collection system. The County therefore, continued to rely on manual method which is prone to abuse and may have contributed to the shortfall in revenue collection.

In circumstances, the effectiveness of the internal controls on revenue collection could not be confirmed.

### **Management Response**

*Automation remains one of top priorities to the Fund. Already, a service provider has been identified, and we are at a piloting stage of digitization of the Licensing process. ANNEX 4*

### **Committee Observations**

1. That the Liquor licensing revenue collection remained manual, prone to abuse, and likely contributed to under-collection.
2. That the lack of automation undermined accountability and efficiency.

## **Committee Recommendations**

- 1. That the Fund Administrator immediately fast-track automation of liquor licensing revenue collection.**
- 2. That the piloted digitization system should be rolled out fully in the next FY and the Revenue officers should be trained on the system to minimize loopholes**
- 3. That the matter is not resolved**

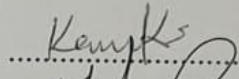
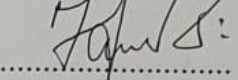
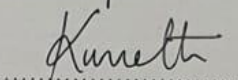
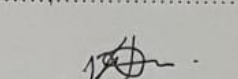
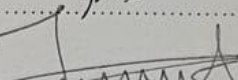

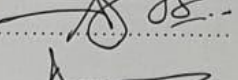
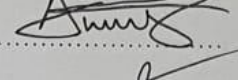
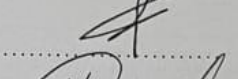
## **7.0 CONCLUSION**

I hereby request that this House adopt this report of the Public Accounts and Investments Committee on the consideration of the Auditor General's report on the Financial Statements of Kisumu County Alcohol Drinks Control Fund for the Financial Years 2020/2021, 2021/2022, 2022/2023, and 2023/2024. May I call upon Hon..... to second?

## ADOPTION SCHEDULE

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We, the Hon. Members of the Public Accounts and Investments Committee, having considered this report, hereby append our signatures in affirmation that these are the true deliberations from the Committee.

- |                        |                  |   |
|------------------------|------------------|---|
| 1. Hon. Ken Ouko       | Chairperson      |    |
| 2. Hon. Tom Onditi     | Vice Chairperson |    |
| 3. Hon. Seth Okumu     | Member           |    |
| 4. Hon. Nancy Matara   | Member           |    |
| 5. Hon. James Omollo   | Member           |   |
| 6. Hon. James Were     | Member           |  |
| 7. Hon. Mickey Awuor   | Member           |  |
| 8. Hon. Reuben Rakwach | Member           |  |
| 9. Hon. Habil Nyasuna  | Member           |  |