

**REPUBLIC OF KENYA**



**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL OPERATIONS**

**OF**

**KAKAMEGA COUNTY EXECUTIVE**

**FOR THE PERIOD  
1 JULY 2013 TO 30 JUNE 2014**

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

## **EXECUTIVE SUMMARY**

### **Introduction**

The Auditor-General has the mandate under Article 229 of the Constitution and the Public Audit Act, 2003 to audit and report on the financial operations and accounts of the County Government and National Government and all public entities.

### **Audit Objective**

The audit objective was to find out how much the County Government spent whether the expenditure constituted a proper charge to public funds and whether there was general adherence to public financial controls in the operation of the County Government in delivery services to the county residents.

### **Terms of Reference**

The terms of reference set out included verification and confirmation of transactions in respect of but not limited to the following areas;

- Procurement of Construction and Civil Works and services
- Budget Performance and expenditure control
- Acquisition of custody, utilization Assets
- Ward Development Funds and Other Devolved funds
- Creditors and Debtors position
- Cash and Bank Balances and transactions.
- General Internal Control Environment
- Human Resource Management and Payroll management
- Revenue Performance and Controls
- Expenditure on Travel and Subsistence Expenses
- Information Technology environment

### **Key Findings**

#### **1.0 Irregular Procurement of Road Works**

Public procurement regulations requiring open tender for procurement above Kshs.6,000,000.00 were not adhered to in respect to expenditure on maintenance on roads amounting to Kshs.112,472,774.

## **2.0 Development under Expenditure by Ministry of Agriculture**

The Ministry of Agriculture, Livestock and Fisheries had a development budget of Kshs.715,065,446.00 out of which it only spent an amount of Kshs.157,820,962.00 leading to unexplained expenditure of Kshs.557,244,484.00 hence limiting service delivery to the county residents.

## **3.0 Unvouched Expenditure**

Payments vouchers amounting to Kshs.85,309,744 in respect of expenditure on procurement of motor vehicles, Printing and Publishing and feasibility and appraisals were not made available for audit. The propriety of the expenditure could not be confirmed.

## **4.0 Failure to maintain fuel records**

There were no stores records maintained respect of total expenditure on fuel amounting to Kshs.35,220,083.05 during the year.

## **5.0 Unverified Payment to Creditors**

A payment to a construction firm of Kshs.20,383,312.55 in respect a debt arising from the construction of Kakamega market was made without proper liaison and confirmation of the balances due from the National Government. Further, the market remained unused more than two years after completion implying no revenue was being collected.

## **6.0 Irregular Procurement of Legal Services**

A law firm was paid an amount of Kshs.7,319,600.00 in respect of defending the Governor in a defamation case. However, no documents were availed to confirm how the legal services were sourced.

## **7.0 Un planned Ward Development Fund/ Projects**

During the year the County Government without prior budgetary provision released Kshs.10,000,000 to each ward as ward development funds. Even though the wards opened bank accounts none of them opened a cashbook in respect of the same. Further, there were no payment vouchers to account for a total of Kshs.15,547,800 released to two wards in Mumias Sub County and Mechanical transport section under the Ministry of Infrastructure. In Lugari/Likuyani Subcounty more than a total of Kshs. 20,907,198 was paid to construction firms without prequalification in disregard of procurement regulations.

## **8.0 Over/Unaccounted for Expenditure on Procurement of Land**

The County Government paid out a total of Kshs.22,200,000.00 in respect of acquisition of land against the budgeted figure of Kshs.20,000,000. This included an amount of Kshs.5,000,000 released for putting up a police post at Matunda in Mumias Sub County which remained un-accounted for.

## **9.0 Failure to maintain a Fixed Assets register**

Records examined indicate that more than Kshs.200,418,335 was spent on procurement of Non-Current assets during the year. However, no fixed assets register was in place to keep control of the same.

## **10.0 Unverified Creditors and Debtors**

A list availed for audit indicated the balance of creditors as at the close of the year to be Kshs.293,623,923 and Kshs.498,113,519 respectively figures that were not supported as there were no up to ledgers in place.

## **11.0 Payment for Undelivered Dairy inputs**

Dairy inputs worth a total of Kshs.4,351,080 had not been delivered even though full payment had been made to a supplier under a dairy development revolving fund created by the County Government.

## **12.0 Operation of Bank Accounts by Unauthorized Officers**

A sample of nine bank accounts opened and operated by the county government in respect of ministries and sub counties reveal general lack of controls with respect to designation of authorized officers.

## **13.0 Irregularities in expenditure on Education Support Programme**

The approved estimates for 2013/2014 lacked a detailed breakdown of the figure of Kshs.372,590,000 provided for the Education Support Programme. A visit to projects in Mumias and Likuyani Sub counties revealed pervasive disregard of procurement regulations among other irregularities.

## **14.0 Irregular Recruitment of Employees and Other Payroll Irregularities**

Sixteen employees were recruited without prerequisite approval of the County Public Service Board. Further, recoveries to employees for un-surrendered imprests amounting to Kshs.1,482,580.60 were refunded back in cash to the employees against the laid down practices.

## **15.0 Incomplete Moi's Bridge-Matunda Water project**

The project which involved supply and installation of a pumpset and rehabilitation of the pump house and the infiltration unit remained incomplete and non-operational even though expenditure had been incurred.

### **15.1 Incomplete Electrification projects**

Electrification projects over which the Rural Electrification Authority had been paid a total of Kshs.6,347,614.90 remained unsupplied with power.

### **16.0 Unverified Expenditure on Domestic/Foreign Travel and Subsistence Expenses**

The reported expenditure on Domestic travel and subsistence expenses of Kshs.281,648,397.00 could not be verified as the relevant payment vouchers were not sorted out ready for audit with the management giving the explanation of the same being “too bulky” Further there was no segregation between the vouchers for domestic travel and those for foreign travel as expected for proper accounting.

### **17.0 Refund to National Government for Transition Period Salaries**

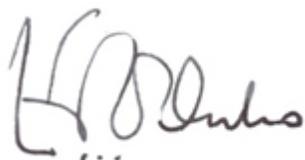
Records availed indicate that the amount refunded to and recovered by the National Government for salaries paid to the Devolved functions employees during the transition period exceeded the amount earlier claimed by Kshs.45,443,124.50. However, proper reconciliation had not been carried out to ascertain the correct position.

### **18.0 Under collection of Revenue**

The County Government managed to collect local revenue amounting to only Kshs.329,272,846 out of the budgeted estimate of Kshs.6,428,746,485 which represent under-collection of more than ninety four(94) percent. This implies that the estimates were not accurate and realistic as required or the revenue collection had challenges.

### **19.0 General Internal Control Environment**

There was no Audit committee in place rendering the oversight role nonexistent. There were also operability problems with the Integrated Financial Management Information System (IFMIS) which rendered the system not very reliable in preparation of accounts. Access controls appeared lacking as previous employees still had access rights.



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**AUDITOR-GENERAL**

**Nairobi**

**29 May 2015**

# DETAILED REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL OPERATIONS OF COUNTY GOVERNMENT OF KAKAMEGA FOR THE PERIOD 1 JULY 2013 TO 30 JUNE 2014

## Detailed Audit Findings and Recommendations

### 1.0 TRANSPORT AND INFRASTRUCTURE

#### 1.1 Irregular Procurement of Road works

Public Procurement and Disposal Act, 2005 provides that construction works priced at Kshs.6,000,000 and above should be procured through open tender.

Examination of payment vouchers and records of road works awarded during the year under review revealed that Construction works worth Kshs.112,472,774.37 were irregularly procured through requests for quotations and not through open tender as required and detailed below:

#### Roads works awarded through Quotations

Particulars	Contractor awarded	Value (Kshs)
1.Repair of Kakamega-Chepsonoi Road	Ms Mazembe Contractors	21,193,585.69
2. D262-Ikorenyo- Shisango Road	Ms Bros & Young Construction Co. Ltd	23,263,804.90
3.Repair of E 307-Turbo- Soy-Kogo	Ms Midland Construction Co Ltd	26,795,998.78
4.Posta- Moco-Cooperative	Ms Northern Construction	20,026,915.00
11.Kakamega High School Access road	Ms. Smatt Construction	21,192,470.00
<b>Total</b>		<b>112,472,774.37</b>

Procurement procedures as set out in Public Procurement Regulations, 2006 were flouted and therefore not possible to confirm if the County Government received value for the expenditure. Further, no explanation was given for this apparent disregard of procurement regulations.

#### Recommendations

- The County Government Executive should adhere to the laid down procurement legislation, regulations and procedures as set out in the Procurement and Disposal Act, 2005 and Regulations, 2006.
- The officers responsible for flouting the regulations should be dealt with appropriately.
- The County Executive should recover any amounts paid for no xxx for money to the County.

## 1.2 Force Account (In-house jobs)

Items of machinery and equipment were hired from the Mechanical and Transport Section under Ministry of Roads to help in carrying out some road works in various parts of the County at a total amount of Kshs.7,430,567.00 as shown below:

Date	Hire from	PV No.	Reason	Amount (Kshs)
23/4/14	Min. of Roads	D012	Wheel loader/ truck	5,208,600
4/3/14	„	D013	Wheel loader, Kumatsu	49,185
4/3/14	„	D014	Dozer, Prime mover	991,810
4/3/14	„	D015	Kumatsu	339,200
28/1/14	„	D001	Wheel loader, Kumatsu	48,600
24/2/14	„	D040	Allowance to plant operators	343,000
	Ms Spendrite		Hire of excavator	450,172
	<b>Total</b>			<b>7,430,567</b>

However, audit revealed the following unsatisfactory matters concerning these transactions;

- (a) No evidence of stock-taking and budget for the above expenditure.
- (b) No reason was given for failure to contract the work so that the Ministry is involved in the supervision only.
- (c) Details of inspection and handing over of the projects not clear and were no provided.
- (d) The Ministry of Roads purportedly hired some equipment from a Company and for which an amount of Kshs.450,172 was paid. It is not clear how the company was identified.

In the circumstances, it was not possible to confirm whether the County received value for the money in expenditure.

## Recommendations

- Procurement regulations and procedures should be adhered in procuring services.
- The department should prepare a proper work plan/budget for work expected to be done in-house (force account).
- Road works should be contracted and the department supervises the works.
- Materials purchased should be taken on charge and recorded appropriately.
- Expenditure should always be budgeted and approved before being purchased.

## 1.3 Inspection and Acceptance Committee

Public Procurement and Disposal Regulations, 2006 provides that an Inspection and Acceptance Committee be formed by a procuring entity to inspect all goods and services and satisfy themselves that correct quantity and quality is delivered.

Some officers were appointed in the committee mostly from stores, administration and procurement office. The officers are required to sign some pre-designed sheet of paper after inspection and consequently payment is made based on the signed paper. Audit revealed the following unsatisfactory matters concerning the operations of the committee;

- (a) There was no evidence that technical officers were appointed to the committee. The committee is not competent enough to provide a fair opinion on technical works such as road works as currently constituted.
- (b) No evidence that the officers travelled to various sites to carry out inspection as road works/projects.

As a result, the committee may not be adding any value in the due process of execution and payment for works carried out to the County.

### Recommendations

- The County Government should ensure that committee instead of signing a pre-designed form; each committee member prepares a detailed report on their observations and submits the same to the Ministry involved for further action before payment is made.
- Technical officers should be appointed to the Inspection and Acceptance committee so that they can execute their mandate more effectively instead of having a committee in place as a matter of formality.

### 1.4 Failure to Remit 3% Withholding Tax

Section 3 (2) of the Income Tax Act, Cap 470 of the laws of Kenya provides that 3% of amount paid to contractors for services provided be deducted and remitted to Kenya Revenue Authority. However, a number of payment certificates did not provide for 3% withholding Tax as demonstrated below;

<b>Firm</b>	<b>Value of the job (Kshs)</b>	<b>Withholding Tax 3% (Kshs)</b>
Intellect Const	8,814,648	256,737
Mazembe Gen. Stores	7,093,666	206,611
Lanlex Construction	1,881,613	54,804
Sabema International	7,428,268	216,357
Farwest Enterprises	2,756,451	80,284
<b>Total</b>		<b>814,793</b>

Failure to remit Kshs.814,793 is in contravention of the law and may attract heavy penalties from Kenya Revenue Authority.

## Recommendation

- The County Executive should remit to the Kenya Revenue Authority all the unremitted amounts including the amount of Kshs.814,793.00.

### 1.5 Under-Expenditure -Ministry of Agriculture Fisheries and Co-Operative Development

The Kakamega County Appropriation Act, 2013 Chapter 2(1) authorized release of funds to be applied for the granted service of the year ending 30 June 2014 out of which Kshs.715,065,446 was to be utilized on development and recurrent expenditure by the Ministry of Agriculture, Livestock, Fisheries and Cooperative Development.

However, the Ministry utilized only Kshs.157,820,962 (22%) out of Kshs.715,065,446 implying that there was under expenditure amounting to Kshs.557,244,484 (78%) as per expenditure returns. Many projects were not implemented implying Service denied to the people of Kakamega County.

- The County Government should ensure utilization of funds budgeted for to avoid backlog of unimplemented projects at the end of the financial year and non-provision of planned and provided services delivery to the County residents.
- The County Government should develop adequate mechanisms to ensure the Ministry of Agriculture, Fisheries and Co-operative Development increases its funds absorption rate to enhance service delivery.

## 2.0 COUNTY TREASURY

### 2.1 Un-vouched Expenditure

Preparation of proper accounts requires that all paid vouchers be posted in the cash book and the ledger adjusted accordingly. The payment vouchers must be presented for audit review when required.

Information captured in the Integrated Financial Management Information System (IFMIS) showed that some payment vouchers valued at Kshs.85,309,744 were not presented for audit review as detailed below:

Item	Value of vouchers made available for audit review (Kshs)	Total expenditure as per expenditure captured in the IFMIS (Kshs)	Unvouched Expenditure (Kshs)
Purchase of Motor Vehicle	119,279,875.00	208,412,469.00	58,905,545.00
Publishing and Printing	3,282,769.00	24,892,257.00	21,609,488.00
Feasibility and Appraisal	6,174,832.00	10,969,543.00	4,794,711.00
<b>Total</b>	<b>128,737,476.00</b>	<b>244,274,269.00</b>	<b>85,309,744.00</b>

In the absence of payment vouchers, it was not possible to confirm the propriety of the expenditure of Kshs. 85,309,744.

## **Recommendation**

The County Executive should trace and provide all the payment vouchers for audit review.

- Officers responsible for non-provision of information for audit review should be appropriately dealt with.

## **2.2 Extravagant/Unaccounted for Expenditure on Regional Conferences**

The County Government of Kakamega on 26 March 2014 remitted Kshs.1million and on 3 April 2014 Kshs.326,338 totalling Kshs.1,326,338 into account with a local bank titled KK/BGM/VHG/BSA/Regional Conference. The bank statement reflects another credit of Kshs.873,125 from Busia County Government and Kshs.1,164,166 from unknown sources thus bringing total credits into the account to Kshs.3,363,629. It was explained that the four counties of western Kenya agreed to create the account to cater for regional conference expenses. No authority in form of a minute resolution or other evidential documentation was availed for audit confirmation. Further, the payouts from the account were not accounted for as the payment records were not made available for audit. It is also not clear why such an account became necessary since the individual county Governments could facilitate such conferences and meetings through established accounting channels in the counties. The bank statement of 3 April 2014 that was produced for audit reflected a balance of Kshs.683,979.00s standing in the account.

Operation of the new account appears to duplicate the existing accounting mechanisms thus creating a loophole for misuse of public resources. There is no evidence that the funds channeled into this account are subject to accountability.

It was not possible to confirm the propriety of the payments adding up to Kshs.2,679,650 out of the regional account as at 3 April 2014.

## **Recommendations**

- The continued operation of the regional account, the account is not justified.
- The account should be closed and the individual county governments continue to finance conference expenses through established accounting mechanisms already existing in the county governments.
- The accountability documents should be provided to account for the amount of Kshs.1,326,338 paid into the regional conference account by Kakamega County Government or the amount be recovered from the responsible parties.

## **2.3 County Motor Vehicles**

### **2.3.1 Failure to Maintain Proper Motor Vehicle Records**

Section 72 of the Public Financial Management Act, 2012 require an accounting officer of the public entity to be responsible for management of the entities' assets and liabilities.

The County Government allocated Kshs.212,000,000 in the County Treasury budget for purchase of motor vehicles. Returns from IFMIS shows that Kshs.162,287,294.00 was spent during the year. However, only the existence of twenty two vehicles valued at Kshs.119,279,875 was confirmed leaving a balance of Kshs.43,007,419 unaccounted for. No evidence was provided to confirm the existence of vehicles valued at Kshs.43,007,419.00

Further, there is no evidence that the County Government is maintaining Asset Register/ Inventory for the purpose of Assets management.

### Recommendations

The County Government should account for Kshs.43,007,419 or recover the funds from the responsible parties.

An Assets Register should be maintained and updated with all fixed assets acquired.

### 2.3.2 Failure to follow guidelines on procurement of County Vehicles

Guidelines concerning purchase of motor vehicles as provided in the Circular Ref: No. SRC/TS/CGOVT/3/61 dated 20/8/2013 states as follows;

(a) "A vehicle of over 3000cc rating is considered a fuel guzzler; it is only the Governor who is entitled to one" (b) The Deputy Governor, County Assembly Speaker, County Executive Committee Member and County officers- to be allocated a vehicle of engine capacity of not more than 1,800cc.

Examination revealed the following unsatisfactory matters in respect to the vehicle procurement;

Since June 2013 the County Government had so far spent over Kshs.158,441,271 on procurement of motor vehicles as detailed below:

Period	Vehicles	No. of vehicles	Amount (Kshs)
2012/2013	Assorted vehicles	6 Numbers	39,161,396
2013/2014	Assorted vehicles	22 Numbers	119,279,875
<b>Total</b>			<b>158,441,271</b>

Included in the purchases are vehicles with more than 1800cc as detailed below:

Make	Registration	Rating
Toyota L/C	GKB 496D	2982
Toyota Prado	KBY 950C	2982
Toyota Prado	KBU 901T	2982
Toyota Lansor	KBU 627T	2986
Toyota L/C	KBZ 431D	4164
Toyota L/C	KBZ 432D	4164
Toyota L/C	KBZ 433D	4164
Toyota L/C	KBY 951C	4164

- The Deputy Governor, the Speaker of the County Assembly among other officers were all allocated vehicles with a high engine capacity rating in disregard to the allowed provisions.
- There were three Accident Vehicles of registration numbers KBY 662, Ford Everest and GKA Toyota Double Cabin 519D with the following issues;
  - i. KBY 662 Ford Everest was involved in a fatal accident and was towed to Mumias Police Station. The matter is still under investigation. The vehicle had third party insurance policy and therefore there is no possibility of compensation. Comprehensive cover was the most preferred and it is not clear why the county opted for third party insurance cover for its new vehicles.
  - ii. GKA 519D, Toyota Land Cruiser got damaged; inspection report revealed that about Kshs 400,000 may be spent on its repair. The vehicle is now lying in a garage and is exposed to vandalism. No reason was given for failure to take the vehicle to CMC for repair.
- Several vehicles were marked for disposal including KVA 082 Toyota Staut, ZB Trailer, KMX 303 Lorry Bedford, KUL 382 Landrover 110, KWT Mercedes Benz among others. However there were no reports and Disposal Committee Minutes on the same.
- Even though several vehicles were procured during the year 2013/2014. Requisition details and Tender Committee Minutes approving the purchases same were not made available for audit review. It was not possible to confirm whether procurement procedure was adhered to.

## **Recommendations**

- The vehicle GK 519D should be repaired and utilized by the County Government.
- The officers responsible for Third Party Insurance of vehicle KBY 662 should be surcharged appropriately for lack of its Insurance Compensation.
- The County Government should comply with the regulations governing acquisition of motor vehicles.
- Procurement procedures and regulations should be followed in procurement and disposal of vehicles.
- The County Government should ensure appropriate engine is procured for its vehicles.

During the year under review, the County Government awarded tender to two of the prequalified merchants, Ms Total Kenya and Ms National Oil to supply fuel and lubricants to the County. A total of Kshs.35,220,083.05 was spent.

Internal controls put in place to control fuel expenditure are detailed below:

- Prequalified supplier is issued with Local Purchase Order (LPO)
- Payment is then made through cheque to the supplier and details of such LPO are posted in a register.
- Transport office then issues bon-voyage (BRV) cards to each driver for a specific vehicle.

- On monthly basis the cards are loaded with amounts ranging between Kshs.20,000 to Kshs.100,000.00
- At the end of the month, each vehicle driver is supposed to account for fuel issued by the transport office.
- The procuring entity (Transport office) is then required to adjust the register indicating fuel issued for each vehicle, amount utilized (to be confirmed from postings in the work ticket) and details of fuel balances
- Procurement entity's register should be compared regularly with the supplier's statement for reconciliation purposes.

However, the following weaknesses were noted;

- a) Transport / Procurement office did not provide list of LPOs issued to Ms Total Kenya and Ms National Oil during the year under review.
- b) Transport office failed to maintain a register or any other record which could help to ascertain that proper internal controls were put in place.
- c) No monthly reconciliations were prepared between the transport office and the fuel supplier(s) to confirm the correct position before additional LPO is issued.

It was not possible to confirm if the County Government received value of Kshs.35,220,083.05 spent on fuel, oil and lubricants.

### **Recommendations**

- All internal controls as prescribed by the County Government above should be adhered to minimize any possible pilferage of fuel, oil and lubricants.
- The amount of Kshs.35,220,083.05 spent on fuel should be accounted appropriately or recovered from the responsible officers/parties.

## **3.0 PUBLIC SERVICE AND ADMINISTRATION**

### **3.1 Completion of Kakamega Market**

According to section 104(1) (j) of The Public Finance Management Act, 2012, "Subject to the Constitution, a county treasury shall monitor, evaluate and oversee the management of public finances and economic affairs of the county government including-maintaining proper accounts and other records in respect of the county Revenue Fund, the County Emergencies Fund and other public funds administered by the county government.

Examination of records regarding the completion of Kakamega market revealed the following;

- a) On 11 April 2014, the County Government made a request to the Chairman, Transitional Authority to assist in transfer of the newly constructed Kakamega market to the County Government of Kakamega. The market had been constructed at contract price of Kshs.153,971,320.00.
- b) There is no evidence that there was consultation with the Ministry of Local Government on the state of the project and confirmation that indeed Kshs.19,703,868.80 the contractor demanded was due to the contractor.

- c) The final payment is usually based on considerations of interim payments, provisional sums in the bills of quantities and site instructions. It was not possible to confirm if provisional sums and preliminary expenditures amounting to Kshs.15,000,000 and Kshs.5,900,000 respectively were taken into account before payment of final certificate.
- d) According to the agreement between the County Government and the Contractor, Kshs.19,703,868.80 was payable to the contractor. However, Kshs.20,383,312.55 was paid vide payment voucher No. D087 of 6/5/14. This was an overpayment of Kshs.679,443.75.
- e) Loss of Revenue. It was noted that several stalls were constructed in the market to be used for business at a monthly rental charge. It was difficult to confirm loss of revenue for the county Government as a result of failure to let out the stalls. It is now over 26 months since the project was completed and the stalls are not rented.

The following Items included in the Bills of Quantity were not adequately explained:

Item	Amount (Kshs)	Remarks
Gate House/ Ticketing room	600,000	Details of work done was not provided
Landscaping	500,000	„
Garbage Disposal Cubicle	200,000	„
Soak Pit	153,520	Soak pit not seen.
<b>Total expenditure</b>	<b>1,453,520</b>	

- f) Handing over certificate/ Completion certificate were not made available for audit verification.

The propriety of the expenditure could therefore not be confirmed due to the anomalies.

### Recommendations

- The County Executive should address the issues of overpayment, handing over/completion certificates, details of work done on Gate house/ ticketing room, soak pit, land scaping, garbage disposal cubicle, status of market stalls and revenue.
- Any losses or overpayment should be recovered from the responsible persons/parties.

### 3.2 Procurement of Legal Services

Section 34(1) of the Public Procurement and Disposal Act, 2005 “The procuring entity shall prepare specific requirements relating to the goods, works or services being procured that are clear, that give a correct and complete description of what is to be procured and that allow for fair and open competition among those who may wish to participate in the procurement proceedings”.

Records available reveal payments totaling Kshs.7,319,600 were made to Marende and Nyaundi Advocates in respect of legal fees. However, there were no records availed to show how the firm was identified for the services implying the services may have been procured without competition.

It has not been possible to ascertain that the contract was awarded to the most competitive tenderer and whether the county received value for money.

### **Recommendations**

- The County Executive should ensure compliance with the laid down regulations regarding procurement of goods and services.
- The County Executive should ensure that funds are used for the benefit of the County residents and not individuals officers.

### **3.3 Ward Development Funds**

During the Financial year 2013/2014, the County Government disbursed a total amount of Kshs.690,578,942 to the wards as Ward development funds through the respective sub counties. The funds were to be administered by the Sub County administrators. Each ward was to open a bank account to receive an amount of Kshs.10,000,000. Audit revealed the following unsatisfactory matters;

- a) Even though the wards opened the bank accounts and received the amount of Kshs.10,000,000 each, none of the more than 20 wards visited in both Likuyani and Mumias Sub Counties maintained a cash book for the bank accounts so opened and thus periodic preparation of bank reconciliation statements was not feasible.
- b) Lugari/Likuyani Sub County alone operated about 35 bank accounts for the wards a figure that was found rather excessive and compromises the control systems over the same.
- c) Without cashbooks and related reconciliations, there were generally no controls over these funds and therefore the propriety of any expenditure could not be confirmed.

### **Recommendations**

- The County Executive should ensure all bank accounts have relevant cashbooks written and bank reconciliations prepared regularly.
- The County Executive should review the opening of bank accounts for each ward to control the usage of the funds and limit the bank charges.

### **3.4 Unsupported Ward Fund Balances**

Balances in the financial statements should be in agreement with the books of account from which they are prepared

A schedule adding up to Kshs.690,547,800 was availed which corresponds to the financial statements figures. However, included in this schedule is Kshs.15,547,800 which was not supported with payment vouchers. The breakdown is detailed below:

<b>Payee</b>	<b>Details</b>	<b>Amount (Kshs)</b>
Koyonzo Ward	Reversed	5,000,000
Lusanya/ Lubinu Ward	Reversed	5,000,000
Mechanical and Transport Fund	Transport	5,547,800
<b>Total</b>		<b>15,547,800</b>

In the absence of payment vouchers or evidence of inter - bank transfers to support expenditure of Kshs.15,547,800 it was not possible to confirm the authenticity of Kshs.690,547,800 in the accounts.

### **Recommendation**

The County Executive should account for Kshs.15,547,800 and ensure that all payments are duly supported.

### **3.5 Award of Contracts to Non-Pre Qualified Contractors in Lugari/likuyani Sub County**

A total amount of Kshs.20,907,198 was paid out to five firms who were not prequalified in respect of maintenance of roads. Further, the inspection and acceptance committee was not involved in all the cases before payments. In all the cases the Certificates of Services on F.O. 20 were signed by the contractor instead of the County Engineer. The statutory retention of 10% was also not effected as full payments were made.

Failure to prequalify contractors does not only amount to contravention of the Public Procurement Regulations of 2006 and Public Procurement and Disposal Act, 2005 but also exposes the county to losses through delivery of poor quality work.

### **Recommendations**

- The County Executive should ensure payments are made on the strength of duly signed completion certificates by Resident Engineer not the Contractor.
- In future, the entity must adhere to the provisions of the Procurement and Disposal Act, 2005 and Regulations, 2006.
- Retention monies must be retained as per contract agreements.

### **3.6 Purchase of Land Account charged**

Public Finance Management Act, 2012 requires that Government funds must be spent within the budgetary provision and for the intended purpose. Further, Constitution of Kenya 2010 requires public participation on all projects undertaken by the County Government.

Ministry of Public Service and Administration provided a budget of Kshs.20,000,000 for purchase of land. However, Kshs.22,200,000 was spent resulting into an over-expenditure of Kshs.2,200,000. Further, included in the expenditure of Kshs.22,200,000 is Kshs.5,000,000 released through Payment Voucher No.2226 dated 17 January 2014 for construction of Matunda Police Station. At the time of this audit, construction had not commenced and bank statements were not availed to confirm that Kshs.5,000,000 was still intact in the bank.

Without bank statements, it was not possible to confirm if the money is still safe in the account.

## Recommendations

- The officer who approved expenditure amounting to Kshs.5,000,000 should be held responsible for contravention of the law.
- The officer who authorized over-expenditure of Kshs.2,000,000 without following the right procedure should be held responsible for failure to follow the procedures.
- The management to Account for Kshs.5,000,000 released for construction of the police station.
- In future, the County Government should involve the public in identification of priority projects and spend within the budget.

### 3.7 Failure to Maintain Fixed Assets Register

Transition to Devolved Government Act, 2012 requires the Transitional Authority to prepare an inventory of all the existing assets and liabilities of the Government and other public entities.

However, with or without Transitional Authority input, it is a mandatory requirement that an organization maintains a fixed assets register to help in safeguarding its assets. Although it is not a mandatory requirement for the County Government to disclose assets and liabilities in the financial statement but under International Public Sector Accounting Standards (IPSAS)-Cash the position of assets must be disclosed in the notes to the accounts. The County Government of Kakamega took over assets worth over Kshs.1,196,177,045 as per the list provided below:-

Item Description	Estimated value (Kshs)	Source of Information
Land	335,966,469	Not clear how amount was arrived at.
Buildings	714,737,467	„ „
Computers and Printers	8,294,973	„ „
Furniture and Fittings	7,638,813	„ „
Motor Vehicles	75,433,268	„ „
Plant and Machinery	54,106,055	„ „
<b>Total</b>	<b>1,196,177,045</b>	

During the year under review assets worth about Kshs.200,418,335 were acquired as per details extracted from the 2013/2014 financial statements as shown below;

Item Description	Estimated Value(Kshs)	Source of Information
Motor Vehicles	154,893,474	Financial Statement for 2013/2014
Office Furniture and General Equipment	32,541,626	„ „
Specialized Plant, Equipment and Machinery	12,983,235	„ „
<b>Total</b>	<b>200,418,335</b>	

However, the County Government of Kakamega did not maintain a fixed assets register to record assets of the county.

It was therefore not possible to confirm existence and trace location of various county assets and in case of loss it would be very difficult to trace the assets.

### **Recommendations**

The County Government should prepare accurate fixed assets register of all assets acquired from the defunct local authorities and ones purchased by the County Government and disclose the same in the notes to the financial statements.

### **3.8 Unverified balances of Creditors**

Keeping proper books of account is not only a fundamental element of any system of internal control but is a legal requirement. A creditors' ledger should be maintained and updated for proper control over creditors.

Records made available indicate that the County Government had creditors amounting to Kshs.293,623,923 as detailed below:-

<b>Item Description</b>	<b>Estimated (Kshs)</b>	<b>value</b>	<b>Source of Information</b>
Suppliers	39,516,940		List provided by auditee
Contractors	43,774,937	”	”
KENAO	9,296,000	”	”
Statutory deductions	150,812,542	”	”
Salary arrears	50,198,122	”	”
Utilities	25,382	”	”
<b>Total</b>	<b>293,623,923</b>		

The list is yet to be submitted to the Transitional Authority for verification and authentication. The source of the list was not clear as there was no updated creditors' ledger in place. The list of creditors was also not disclosed in the financial statements.

Failure to pay creditors may result into expensive litigations particularly if creditors take legal action against the County. It was therefore not possible to confirm the correct creditors' position as at 30 June 2014 and there appear a high risk of the County staff exaggerating the balances of creditors and thus the County Government paying for non-existent debts.

### **Recommendations**

- The County Government should liaise with the Transition Authority to verify and authenticate the creditors list and provide the same for audit verification.
- Details of creditors should be disclosed in the notes to the accounts

### 3.9 Unverified balances of Debtors

Debtor balances should be controlled through an up-dated ledger indicating how the balances have accumulated over the period concerned. The Transition Authority was expected to authenticate the value of debtors taken over by the County Government from the defunct local authorities.

Records available to us show that the County Government had debtors amounting to Kshs 498,113,819.00 as detailed below:

Item Description	Estimated value (Kshs)	Source of Information
CILOR	400,093,355	List provided by auditee.
Rates	90,385,242	„ „
House/ Stall rent	3,170,350	„ „
Kiosk rent	3,024,000	„ „
CESS	1,368,372	„ „
Nursery Fees	72,500	„ „
<b>Total</b>	<b>498,113,819</b>	

However, were no proper records in form of a ledger maintained for the control and monitoring of the county Government debtors and thus the authenticity of the list of balances could not be confirmed. The debtors list is yet to be submitted to the Transitional Authority for verification and authentication.

Failure to follow up with debtors may result into loss of revenue. It has therefore not been possible to confirm the correct debtors' position as at 30<sup>th</sup> June, 2014 and there is high risk of understatement of both outstanding rates and rents thus the same may remain uncollected.

### Recommendations

- The County Government Management should liaise with the Transition Authority to verify and authenticate the debtors list and provide the same for audit verification.
- Details of debtors should be disclosed in the notes to the financial statements.

### 3.9 Dairy Development

Public Procurement Regulations require payments for procured goods and services to be made only after delivery that meets the order specifications in terms of both quality and quantity. Further proper feasibility study should be undertaken before commencement of any new project.

An amount of Kshs.20,170,360.00 was paid on 19 June 2014 to Kenya Animal Generic Resource Centre through a proforma Invoice to supply A.I Equipment and bull semen doses. Equipment and bull semen doses worth Kshs.4,351,080 had not been supplied as at 10 March 2014.

Further, we noted that the above account is operated as a revolving fund (cost sharing) where farmers who are served are supposed to bear part of the cost. A total of Kshs.1,028,250 was realized from farmers and deposited in the co-operative bank account.

Details of operationalization of the account were however not available for audit verification. In case of failure to supply, the County Government risks losing over Kshs.4,351,080.

- a) For every service, the County realizes Kshs.200 out of Kshs.800 charged. The balance of Kshs.600 is paid to the service provider (trained inseminators.) During the year Kshs.1,028,250 was realized which is negligible and cannot sustain the project. In our opinion, the project may not be self-sustainable.

### **Recommendations**

- The County Government should Confirm that the supplier supplies the remaining goods worth Kshs.4,351,080.00
- Provide documented information on how the account is to be operated and ensure the project is sustainable.

## **4.0 MINISTRY OF LANDS AND HOUSING**

### **4.1 Irregular opening and operation of bank accounts**

According to Section 119 (2) of the Public Finance Management Act, 2012, ``As soon as practicable, each County Treasury shall establish a Treasury Single Account at the Central Bank of Kenya or a bank approved by the County Treasury through which payments of money to and by the various county government entities are to be made.``

At the time of audit, the County Government had authorized the opening of various bank accounts. Money had also been transferred to those bank accounts opened in the names of various institutions and county departments.

The departments and other bodies for which bank accounts were opened had not been designated as county government entities, hence not qualifying for separate funding. It was also not possible to tell whether any officers had been designated as account officers/signatories for those departments or institutions. For example, in the case of department of education, the officer said to have been designated as the chief officer and consequently the accounting officer, had not even been appointed as an officer in the county government. There was also no personal file for the officer at the Human Resource department of the County Government.

As a result operating a financial management system outside the provisions of the Public Finance Management Act, 2012, could therefore lead to loss of funds since no one is accountable for the amounts transferred to those bank accounts.

## **Recommendations**

- All those bank accounts should be closed and the balances of cash transferred to the County Treasury Account.
- Money should only be transferred to lawfully established county government entities where an accounting officer has been appointed.
- Funds used through the operation of those accounts should be reviewed and any losses recovered appropriately.

### **4.2 Failure to Designate Officers as Signatories**

According to Section 148 (1) of the Public Finance Management Act, 2012, ``A County Executive Committee member for finance shall, except as otherwise provided by law, in writing designate accounting officers to be responsible for managing the finances of the county government entities as is specified in the designation.``

At the time of audit, the county government had not designated the Chief Officers in the departments of education, science and technology on one hand and housing and urban development on the other.

Officers who were in charge of operating those two bank accounts had not even been appointed as county government officers in the first place, before they were appointed as acting chief officers. Even there were no letters appointing them as acting chief offers. A letter made available at the time of audit to support the appointment of the chief officer in the department of education was a sample of such a letter. It did not even show the entity to which the officer was appointed to, if there was an appointment in the first place.

In the absence of any formal engagement of officers said to have been appointed as chief officers, there is no one who can be held accountable in case of any misappropriation of funds.

## **Recommendations**

Only officers who have been formally appointed as officers of the county government should operate bank accounts once they are designated as accounting officers or signatories.

### **4.3 Irregular operation of Standing Imprest**

According to Sections 152(1) to (2) of the Public Finance Management Act, 2012, ``An accounting officer for a county government entity may authorize payment of cash advances to public officers employed in the entity to be used to enable those officers to make payments for the entity or in the course of their duties. `` And ``The power to authorize cash advances is subject to any limitations imposed by the regulations. ``

At the time of audit, some officers in the county department of education were being advanced cash for office running.

However, there was no evidence of them having been appointed to hold any cash in form of Standing Imprest. For example, at the Human Resource Department of the County

Government, there was no evidence that anybody had been appointed as an officer in the county government, so as to qualify to transact any business therein.

Even the amount of float (maximum amount) had not been determined at that time.

In the absence of any formal engagement of officers transacting business on behalf of the county government, no one can be held responsible for any loss or misappropriation of public funds.

### **Recommendations**

- For proper operation of a Standing Imprest system, the following among others, should be in place.
- A pre-determined maximum amount of cash that the officer appointed to operate the same should hold at any given time.
- There should be an officer of the county government who is held personally responsible for operating the standing imprest.
- Standing imprest is issued only once at the beginning of the financial year. Thereafter the imprest holder should only seek reimbursement of amounts equal to what he/she has spent from the initial amount issued.
- Come the end of the financial year, all the outstanding imprest is surrendered back and a fresh one is issued for the next financial year.
- All transactions (receipts and payments) relating to the standing imprest should be recorded in a separate cash book maintained by the imprest holder.
- Standing imprest should not be mixed with temporary imprest. The two are different types of imprest.

#### **4.4 Unexplained payment to National Housing Corporation-**

The county government through voucher number 034 and cheque number 38 of 28 January 2014 paid Kshs.13,500,000 to National Housing Corporation. However, from the supporting documents, it was not very clear as to what the payment was actually about. An unsigned memorandum of understanding (MOU) dated 1 November, 2013, referred to the payment as a debt under Objective 2 and as a deposit under Obligation 9.

Letter ref.no.NHC.8.10.X1X(68) SK from National Housing Corporation, dated 28/01/2014 and addressed to the county secretary, referred to the transaction as loan repayment. National Housing Corporation had also not acknowledged receipt of the same at the time of audit.

A schedule of creditors dated 19 July, 2014, was availed at the time of audit. The total amount of creditors was Kshs.206,089,861. National Housing Corporation was not included in the schedule. The debts ranged from six (6) months to ten (10) years

The county government could have lost the whole amount since it was not clear as to it was meant for. There was no evidence of such a liability having been inherited from the defunct Municipal Council of Kakamega.

### **Recommendations**

- The money should be paid back to Kakamega County Government as there was no evidence of inheriting such a debt from the defunct Municipal Council of Kakamega.
- Only debts validated by the Transitional Authority from the defunct local authorities can be paid by the respective County Government.

## **5.0 MINISTRY OF EDUCATION, SCIENCE AND TECHNOLOGY**

### **5.1 Unplanned Projects Funding under Education Support Programme**

According to Section 126(1)(f) of the Public Finance Management Act, 2012, ``Every county government shall prepare a development plan in accordance with Article 220(2) of the Constitution, that includes-a detailed description of proposals with respect to the development of physical, intellectual, human and other resources of the county, including measurable indicators where those are feasible.``

At the time of audit, several projects falling under the department of education had been funded to amounts adding up to more than Kshs.372,590,000. However, the projects funded had not been included in the development plan made available for audit review.

Funds were disbursed to Project Implementation Committees (PICs) which were neither procurement entities nor County Government entities. A visit to two sub-Counties of Lugari/ Likuyani and Mumias revealed pervasive procurement and implementation irregularities.

### **Recommendation**

- The County Government should ensure projects funded are designed in accordance with the law.
- All procurements should comply with the procurement legislations regulations and Procedures to enhance value for money for the County.

### **5.2 Irregular Procurement of Construction Works**

The open tender method is the preferred method of procurement and alternative procurement methods are used only if specific conditions are met. For works and services valued at Kshs.6,000,000 and above, national open tender method is the preferred method.

Construction works priced at over Kshs.6,000,000.00 were irregularly awarded at the Sub County Level through requests for quotation instead of the required open tender as detailed below;

<b>Institution</b>	<b>Work Description</b>	<b>Contractor</b>	<b>Contract Sum (Kshs)</b>
Matawa	Construction of	Lungu Building	7,367,417.52

Polytechnic Eshinyenye Girls	Polytechnic Administration/ Tuition Block	Contractors Upper Creative Company	23,2014,518.20
Buchifi Secondary	„	Smatt Construction Company	23,926,026.00
Matungu Polytechnic	Construction of Polytechnic	Nerima General Supplies	6,911,999.00
ACK Koyonzo Sec.	Administration/ Tuition Block	Lanlex Construction	25,274,700.60
Shianda Youth Polytechnic	Construction of Polytechnic	Dedaco and Sons Company	7,448,406.40
	<b>Total</b>		<b><u>51,404,048.72</u></b>

Further, the committee which awarded the contracts to the contractors was not properly constituted as committee members were not appointed by the Chief Executive as per the requirements of procurement regulations. Without adherence to the Procurement laws and regulations, it was not possible to confirm if the County got value for money in the works worth Kshs.51,404,048.72.

### **Recommendation**

- All procurements above Kshs.6,000,000.00 should be properly advertised so that a wide spectrum of interested contractors can participate in the tender process. (competitive procurement)
- The County Government should adhere to the procurement law in appointing its procurement committee.

### **5.3 Failure to maintain Cash Book and Bank Reconciliation Statements Criteria**

Preparation of financial records requires that ones and institution opens a bank account, it should also maintain a corresponding cash book and bank reconciliation statements at the end of every month.

Polytechnics, Secondary Schools and some Primary and Pre-Primary Schools in Mumias Sub County benefitted from the Education support Program to the tune of over Kshs 59,000,000 during the year 2013/2014. Later during the Financial Year 2014/2015 some unspecified amount was given out to complete the projects.

All the Institutions opened bank accounts and formed committees to oversee the construction and completion of the projects. However, Mumias Sub County offices failed to maintain proper records including cash books and bank reconciliation statements for cash receipts and expenditure.

As a result, it was not possible to confirm that cash amounting to over Kshs.59,000,000 was all spent for the intended purpose and the County Government received value for the expenditure incurred.

### **Recommendations**

- The sub county offices should have qualified staff capable of handling finance records so that accountability is enhanced.
- The officers should prepare the required cashbooks and bank reconciliation statements appropriately.

#### **5.4 Failure to account for funds released from County Headquarters to Sub Counties**

Funds released from National or County Government should be spent the soonest possible to accelerate development so that citizens can get essential services. Contrary to the requirements, the County Government of Kakamega released over Kshs.29,000,000 to various Educational Institutions in Mumias Sub County before 30 June,2014, however, as at the time of this audit in February, 2015, there was no evidence that this money was received and spent for the intended purpose as there were no expenditure returns, bank statements or any other information on the projects' status.

In the circumstances, it has not been possible to confirm the propriety of Kshs.29,000,000.00 disbursed to education institutions at the Sub County of Mumias.

### **Recommendations**

- The County Government should ensure that competent accountants and adequate number of staff are employed at the Sub County level to prepare up- to- date finance records.
- The County Government staff at the headquarters including internal audit and County Works office should make frequent follow up on work in progress at the Sub County level and prepare up to date report to the relevant authorities.

#### **5.5 Mumias Sub- County- Educational Institutions (Projects)**

Apart from Kshs.5,000,000 issued to each Polytechnic and Secondary Schools in Mumias Sub County, an additional Kshs.5,000,000.00 was given out in the financial year 2014/2015. A visit to some of these institutions during this audit in February 2015, the following were observed:

##### **5.5.1 Under delivery in construction of Matawa Polytechnic**

Construction of Matawa Polytechnic was awarded to Ms Lungu Building Contractors at a contract sum of Kshs.7,367,437. The project was practically completed in December 2014. The contract sum was revised from Kshs.7,367,437 to Kshs.7,764,381 resulting into a variation order of Kshs.396,944.00.

Included in the variation order are:

- a) Supply and fixing of 10,000 litre water tank at a cost of Kshs. 140,000. The water tank was not installed.
- b) Prime Cost (PC) Sum of Kshs.200,000.00 was provided for electric works. However, Kshs.400,200 was spent. The figure of Kshs.400,200 was arrived at by the Sub County Works office. The electrical officer was unable to explain the source of rates in arriving at the figure of Kshs.400,200. For example a consumer unit was valued at Kshs.18,000. The normal market rate is about Kshs.6,000.00.00.

The County may not have received value for the expenditure of Kshs.7,764,381.00

### **Recommendations**

- The County Government should recover all the amounts for undetermined items.
- In future, variation orders must be properly worked out using realistic rates whose origin can be explained.
- Over priced items such as the consumer unit should be priced at the market price using the required market survey.

### **5.5.2 Construction of Administration/ Tuition Block at Eshisenye Girls Secondary School**

A construction firm was awarded tender to construct an administration block at Eshisenye Girls Secondary School at a cost of Kshs.23,204,518. The administration/ tuition block was meant to be a single storey building.

The work which commenced on 19 June 2014 was supposed to be completed in February 2015 (32 weeks from date of commencement).

A Letter of award and expenditure analysis indicated that an amount of Kshs. 10,000,000 was paid out to Eshisenye Girls Secondary School for this purpose. Other details are shown here below:

<b>Item Description</b>	<b>Amount Allocated</b>	<b>Source Information</b>	<b>of Amount spent (Kshs)</b>
Construction of admin/ tuition block	23,204,518.20	Letter of award	7,261,146
Admin expenses	300,000	Expenditure. Analysis	90,800.00
Total expenditure			<b>7,351,946</b>
Amount unspent			<b>2,648,054</b>

A site visit on 17 February 2015 revealed that there was no work In progress and the project appears stalled at the ground walling stage.

Bills of Quantity show that total cost for substructure and superstructure walling is detailed below:

<b>Elem.</b>	<b>Description</b>	<b>Value as per BOQ(Kshs)</b>	<b>Approx. value of work done (Kshs)</b>
1	Substructure	2,375,800	2,375,800
2	Reinforced concrete superstructure	3,483,900	1,741,950
3	Superstructure walling	798,950	399,475
	Total as above	6,658,650	4,517,225
	VAT	1,065,384	722,756
	<b>Total cost</b>	<b>7,724,034</b>	<b>5,239,981</b>

Physical verification revealed that work valued at approximately Kshs.5,239,981 had been done but the contractor had been paid Kshs.7,261,146.00.

No reason was given for overpayment to the contractor. It was also not explained why the contractor was not on site.

The Delay in completion of the work denied services to the expected beneficiaries through the use of the facility.

Further, there is a possibility that contractor may abandon the work before completion or even delivering sub-standard work resulting into losses to the county

### **Recommendations**

The officers who approved the overpayment should be held responsible in case the contractor is unable to complete the work as per terms of contract.

#### **5.5.3 Buchifi Secondary School**

A construction firm was awarded tender to construct an administration block at Buchifi Secondary School at a cost of Kshs 23,204,518 later scaled down to Kshs. 10,000,000.00. The administration/ tuition block was meant to be a single storey building.

The work which commenced around 19th June 2014 was supposed to be completed in February 2015 (20 weeks from date of commencement).

Letter of award and expenditure analysis revealed the following details:

<b>Item Description</b>	<b>Amount Allocated (Kshs)</b>	<b>Source of Information</b>	<b>Amount spent (Kshs)</b>
Construction of	10,000,000	Letter of award	5,455,770

admin/ tuition block			
Admin expenses	300,000	Expenditure Analysis	90,800.00
Total expenditure			<b>5,546,570</b>
<b>Amount unspent</b>			<b>4,453,430</b>

A site visit on 17 February 2015 revealed that there was no work In progress and the project appears stalled at the ground walling stage. No reason was given for failure of the contractor to complete the project as per the terms of the contract.

No bank statement was provided to confirm Kshs.4,453,430 in the bank.

Delay in project completion deprives the county residents from benefiting from the use of the facility.

### **Recommendation**

- The County Government should determine the possibility of the contractor completing the project.
- The County Government should establish the custody of safety of Kshs.4,453,430.00
- The County Government should award huge tenders to contractors with the capacity and adequate resources to deliver.
- Unliquidated damages should be sought for delay in completion of the project from the contractor.

## **5.6 Lugari/ Likuyani Sub County- Education Support Program**

### **5.6.1 Bahati Primary School -Construction of Early Childhood Development Centre (ECD) and 3 No. Classrooms**

A proper bill of quantities is a prerequisite of any construction project which should be implemented within the agreed period to ensure timely benefits to the public.

A stationery firm was paid a Kshs.1,840,744.00 out of an agreement/contract price of Kshs.5,532,161.80 in respect of construction of an ECD Centre and 3 classrooms at Bahati primary school.

The Project was to take 27 weeks with effect from 13 June 2014 and should have been completed by 21 of January 2015.However, a site vision on 26 February 2015 about five weeks after the expected completion date the following unsatisfactory matters were noted: -

- The contractor was not on site and works had stalled with the classroom barely above the foundation
- The ECD classes had other unsatisfactory matters
- The construction of the three Classrooms was based on an estimate of one class room which had been multiplied by 3 thereby exaggerating the cost by two walls which had not been done and their cost could not be immediately verified.
- The County Government did not get value of payment amounting to Kshs.1,816,790.00.

## **Recommendations**

- The County Government should engage contractors with the requisite capability for construction works.
- The County Government should demand unliquidated damages from the contractor due to the delays.
- The contractor should resume work or the contract be terminated and be re-awarded to ensure project completion.
- The officer who approved the payment should be held responsible for any overpayment.

### **5.6.2 Construction of Administration/Tuition Block –Nzoia Girls Sec School, Lwandeti**

The Public Procurement and Disposal Regulations in operation among other provisions require procurement of all civil works in excess of Kshs.6,000,000.00 to be done through open tender unless conditions necessary for the use of the alternative methods are met.

- a) The Sub County Procurement Committee on 15-May-14 awarded a contract for construction of Tuition block at Nzoia Girls school at a cost of Kshs.28,257,699.40 to M/s Dynamic Green Tech Limited against the budgeted amount of Kshs.20,000,000.00. No details were provided by the Tender Committee to justify award of the contract beyond the available funding.
- b) The quotations for the works were circulated for 15 instead of 21 days.
- c) The Sub County Tender Committee that adjudicated this award was not properly constituted or gazetted as required under the PPOA Act for the threshold of the projects these works thereby exposing the county to risks of litigation.
- d) Further examination of the payment vouchers revealed that certificates used to process the payments were just summaries and no details of the works undertaken are measured and recorded as per the bills of quantities (BQs) casting doubt as to the actual value of works paid versus that already undertaken which may have resulted to the overpayment.

## **Recommendation**

- The County Executive should ensure the projects are satisfactorily completed as budgeted.
- Adhere to the procurement and disposal rules and regulations.
- Ensure duly approved works certified certificates are used in processing payments.

### **5.6.3 Proposed Tuition Block at Moi Girls' Nangili – Kongoni**

In June 2014 the County Government of Kakamega disbursed an amount of Kshs.5,000,000.00 to Moi Girls Secondary School Nangili for construction of a tuition block at the school initially started by the school. Records availed indicated that the school had signed a labour based agreement with a construction firm to carry out the works at a cost of

Kshs.2,000,000.00 while the school was to buy building materials costing Kshs.10,576,620.00 adding to a total of Kshs.12,576,620.00 for the whole construction works.

The funds disbursed by the county were utilized to pay the contractor a sum of Kshs.750,000.00; procure materials at a cost of Kshs.4,050,350.00; and, the balance met facilitation costs for the project committee as well as bank charges.

However, an audit verification undertaken in February 2015 revealed that the materials paid for were grossly overpriced compared to the school contractor prices which if used the county may have saved Kshs.896,540.

A site visit on 25 February 2015 revealed that there was no work going on and the project appears stalled.

### **Recommendations**

- The County Executive should ensure the project is successfully completed.
- Action is taken against the contractor for stagnating the project completion to ensure recipients benefit.

#### **5.6.4 Proposed construction of administration/tuition block at Manyoni Girls**

The Sub County Procurement Committee on 15 May 2014 awarded a builders firm the work of constructing an administration/tuition block at Manyoni Girls Secondary school at a price of Kshs.24,657,302.00 later scaled down to Kshs.19,110,530.20.

The contract was to last for 52 weeks with effect from 22 May and by the time of audit 43 weeks had lapsed and the completion rate stood at approximately 40 % as compared to Kshs.11,673,374.00 already expended on the project representing 61% of the contract value.

As per the Bills of Quantity, hoarding was estimated at Kshs.315,000.00 though this has not been done yet the contractor has been paid the amount.

### **Recommendation**

The County Executive should ensure the projects are satisfactorily completed as budgeted.

- Recover payments for work not done though paid for.

#### **5.6.5 St. Marys' Girls Boarding Mautuma-Proposed construction of an ECD Centre and 3 classrooms**

A construction firm was paid Kshs.3,249,000.00 out of an agreement price of Kshs.4,843,284.80 in respect of construction of an ECD Centre and 3 classrooms at St. Mary's Girls primary school. However, physical verification during the month of February 2015 revealed that works worth at Kshs.1,390,730.00 had not been done even though paid for and the classes already in use. The verification further, revealed general poor workmanship as evidenced by the cracking floors and painted walls serving as blackboards despite the work having been certified by the technical team as complete

## **Recommendation**

- The contractor to be called upon to make good the defects or otherwise the amount paid to be recovered from the payee and the authorizing officers.

### **5.6.6 Construction of Administration/Tuition Block at Holy Cross Girls Secondary School, Sango (Lugari Sub County)**

A contractor was awarded the contract at a cost of Kshs.24,696,296.70 for the construction of the block. The contract sum was later scaled down to Kshs.20,000,000 resulting into unexplained difference of Kshs.4,696,296.70 because the items affected in the bills of quantity were not clarified.

- (a) Audit verification of these works through sample measurements revealed that there were variations in the actual works as compared to the BQs which would adversely affect the project in favor of the contractor receiving payments for works not undertaken or completed using materials other than those specified in the bid documents.

## **Recommendations**

The County Executive should ensure

- The projects are satisfactorily completed as budgeted.
- Recover of payments for work not done though paid for.
- Payment be made based on the certified work done.

### **5.6.7 Construction of Administration/Tuition Block -St Henry Saisi Girls Sec School, Sinoko**

- The Sub County Procurement Committee on 15 May 2014 awarded a contract at a cost of Kshs.23,691,039.60 to a contractor for the construction of a Tuition block against the budgeted amount of Kshs.20,000,000.00.No explanation was provided from the Tender Committee to justify award of the contract beyond the available funding.
- The contract was to last for 52 weeks with effect from 30 May 2014 and by the time of audit 36 weeks or 69% of the contract period lapsed and the completion rate stood at approximately 25%. The contractor was therefore behind schedule by about 23 weeks though he was on site without any works going on.
- The contractor had been paid Kshs.4,272,778.60 against the cost of the value of the works done of Kshs.3,403,100.00 which was an overpayment of Kshs.869,678.60.

## **Recommendation**

- The County Executive should ensure the projects are satisfactorily completed as budgeted and planned.
- Recovery of payments for work not done but paid for.
- Payments are made based on the certified work done

### **5.6.8 Construction of the Proposed Twin Workshop at Kabras County Polytechnic, chevaywa**

- a) The Sub County Procurement Committee on 15 May 2014 awarded a contract at a cost of Kshs.7,547,029.60 to Emakhwale Contractors.
- b) The Sub County however received Kshs.10,000,000 which had been allocated for the project which means there was an excess amount of Kshs.2,452,970.40. There was no justification for the extra disbursement which remain unaccounted for.
- c) The contract was to last for 52 weeks with effect from 10 May 2014. By the time of audit 32 weeks had lapsed while the completion rate stand at Kshs.4,156,915 already expended on the project .
- d) It would appear that building foundation slab was undertaken below the natural ground level exposing the building to natural threats especially flooding and dampness.
  - i. The project had stalled and the contractor was not on site.
  - ii. Besides unauthorized variations, the work was characterized by very poor workmanship casting doubt on the capacity of the contractor to undertake the works.

### **Recommendations**

The County Executive should ensure Projects are properly planned and executed as budgeted.

- Project supervision is enforced and Contractor be held responsible for poor workmanship.
- Recovery of the excess project, funds of Kshs.2,452,970.40.

### **6.0 CASH PROCUREMENT OF GOODS AND SERVICES**

According to Treasury Circular 3/2010 of 7 May, 2010, Issuance of temporary imprests for purposes other than for official travel thereby circumventing Procurement Regulations and Procedures is discouraged.”

The County Department of Education procured goods and services worth Kshs.2,195,000.00 using Office Imprest which amounted to contravention of procurement regulations.

### **Recommendations**

- The requirements of Treasury Circular 3/2010 of 7 May 2010 and PFM Act 2012 concerning Imprest be adhered to.\

## **7.0 INTERNAL CONTROLS**

### **7.1 General Internal Control Environment and Information Technology (IT)**

According to the International Standards of Supreme Audit Institutions (ISSAIs) management is responsible for maintenance of effective control measures and compliance with laws and regulations.

The Control Objectives of Information Technology (COBIT) business processes require organizations to perform the following in respect of their IT internal control environment:

- Manage the IT investment;
- Communicate management aims and direction;
- Manage IT Human resources;
- Manage quality;
- Manage projects;
- Manage changes;
- Define and manage service levels;
- Manage third party services; and
- Monitor and evaluate IT performance.

Audit revealed that Information Technology management at the County Executive was not supported by an approved IT security and access policy. Further, no documented tested emergency procedures to provide guidelines for emergency response nor any off-set ICT continuity and disaster recovery plan to cater for disaster management. In addition, the computer room is not fitted with fire suppression systems and air conditioning systems.

Given the circumstances, IT governance may be compromised through inadequate policy frameworks. Financial loss may arise due to inadequate response to emergency on disaster occurrences.

### **Recommendations**

The County Executive should establish an IT security and access policy to guide the IT governance.

- Also establish documented tested emergency procedures to provide guidelines for emergency response.
- Ensure the computer room is fitted with fire suppression systems and air conditioning systems.

### **7.2 Internal Audit and Audit Committee**

Treasury Circular No. 16/2005 of Ref: No. MOF/IAG/GEN/055/(16) dated 4<sup>th</sup> October, 2005 and Circular No. 3/2009 of Ref: No. MOF/IAG/033/(75) dated 23<sup>rd</sup> February, 2009 provided guidelines for the development of an efficient and effective internal audit functions in the public service through sound Risk Management Policy Framework and a competent audit committee with oversight role.

The internal audit function was not supported by an established audit committee and an approved risk management framework. Further, the internal audit department operated without an approved annual audit neither plan nor audit charter.

The County Government of Kakamega may not achieve the desired levels of performance efficiency and effectiveness in the delivery of its mandate.

### **Recommendations**

The County Executive should establish an audit committee as required and develop and implement its Institutional Risk Management Policy Framework (IRMPF).

Ensure the internal audit department should establish an annual audit plan and an audit charter.

### **7.3 Irregular IFMIS/ G-PAY Access Rights Controls**

IFMIS / G-Pay system envisions a secure two way interface with CBK for accurate up to date information on the county's financial position and the production of statutory reporting real time.

The National Treasury distributes IFMIS/ G-Pay Program access rights and responsibilities to four (4) specific officers upon a formal application from the head of treasury of the implementing client. The four (4) access rights include: Data entry, Verifier 1, Approver (Verifier 2) and the Systems Administrator. The program manual provides that the head of treasury of the implementing client shall be the program administrator, the payments Cashier being responsible for data entry, one nominated accountant being verifier 1 and the Chief Officer Finance being responsible for final approval as Verifier 2 (Approver).

The following audit issues were noted;

A card whose holder had been relieved of performing duties continued to operate.

Lack of adequate segregation of duties in the operation of the cards was noted.

### **Recommendations**

- The County Executive should ensure access Controls are put in place with only authorized persons having the pass words and right of access.
- There is a documented access rights management policy.

### **7.4 Human Resource Management (HRM) & Integrated Personnel and Payroll Management Systems (IPPD)**

Corporate governance principles require cost effectiveness and efficiency in human resource management.

Section 5.10 of Government Financial Regulations and Procedures provides the criteria for the processing of computer payrolls. All the payments of salaries for all officers other than casuals and works paid staff should be processed through Integrated Personnel Payroll Data (IPPD) program.

Section C of the County Public Service Human Resource Manual of May, 2013 requires a definite reporting and approval of vacancies for recruitment of county government public service staff. Recruitment and appointment of the county government public service staff is a function the County Public Service Board.

However, Staff appointments not approved by the County Public Service Board

Sixteen (16) officers included in the county government payroll had not been subjected to the county public service board recruitment process nor had their appointments been approved by the board. The appointments were done variously by either the Governor or the Human Resource Manager.

Payroll costs in respect of the noted appointments had accumulated to Kshs.2,551,035 as at 30 August 2014.

### **Recommendation**

The County Government should be reconsidered and subject appointments to the approved recruitment process of the board.

### **7.5 Unaccounted for Payroll Revenue (Commission)**

An amount of Kshs.1,673,180.78 withheld from payroll remittance due to various banking institutions in respect of 5% ledger fees (commission) during the year were neither recognized as revenue to the county government nor remitted to the IPPD department as AIA. The amounts concerned therefore remain unaccounted for.

### **Recommendations**

The County Executive should account for the Revenue income – remittance commission

### **7.6 Performance Management**

Section C of the County Public Service Human Resource Manual of May, 2013 requires the County Executive Committee to design a performance management plan to evaluate performance of the county public service and the implementation of county policies as provided for in Section 47 of the County Government Act. The plan sets out the criteria for performance appraisal.

The purpose of performance appraisal is to assess as comprehensively and as objectively as possible the officer's performance against set targets and is aimed at the realization of the overall departmental objective

The county government had not established the required performance management plan. Further, no evidence of staff performance appraisal reports during the year.

Thus the County Government of Kakamega did not comply with the guidelines provided in Section C of the County Public Service Human Resource Manual of May, 2013

The County Government may not be able to efficiently manage and improve performance in the county public service

### **Recommendation**

The County Executive should establish performance management plan to evaluate performance of the county public service and the implementation of county policies as provided for in Section 47 of the County government Act, 2012.

### **7.7 Irregular refund of imprests recovered from the payroll**

During the months of April 2014, May 2014 and June 2014 the county executive of Kakamega effected recovery of long outstanding imprest from various officers through the monthly payroll. It was however noted that the recovered imprest were later refunded to the affected officers upon surrender of the same. The refund amounted to Kshs.1,482,580.609.

### **Recommendation**

The county executive should provide surrender vouchers.

### **8.0 ELECTRIFICATION COST – RURAL ELECTRIFICATION AUTHORITY (REA)**

The Kenya Rural Electrification Authority (REA) was paid a total of Kshs.6,347,614.90 for the supply and installation of electrification equipment to various water projects as follows;

<b>Project Title</b>	<b>Amount Paid (Kshs)</b>
Kongoni Borehole Water Project	224,103.50
Sango Water Project	2,060,514.00
St. Monica Imbinga Water Project	2,242,997.40
Matungu Rice Farm	1,820,000.00
	6,347,614.90

However, all the contract works had not been done except for Kongoni Borehole Water Project of Kshs.224,103.50.

### **Recommendation**

The County Executive should take the necessary actions with the Electrification Authority to meet its obligation under the contract.

## 9.0 REVENUE

### 9.1 Under-Collection of Revenue

The Government Financial orders require accounting officers to prepare accurate and realistic estimates for approval by the County Assembly every year.

During the year the county government managed to collect local revenue amounting to only Kshs.329,272,846 compared to the budgeted figure of Kshs.6,428,746,485.00 resulting to an under-collection of Kshs.6,099,573,639 (95%) of the budgeted amounts.

The huge under collection of revenue difference was not explained.

### Recommendations

- The County Executive Management should ensure that estimates are realistic and accurate as required by the law.
- The County Executive investigates the reasons for the huge under collection.

### 9.2 Un-reconciled Differences in Revenue Records

Balances in the financial statements should always agree with those in the books of account from which they are prepared.

The schedule made available to support the other receipts balance of Kshs.329, 272,846.00 compared to the cashbook lump sum receipts/deposits indicated variations as shown below;

	<b>Schedule balance (Kshs)</b>	<b>Cash book balance (Kshs)</b>	<b>Variance (Kshs)</b>	Remarks
July -Sept 13	65,357,216.00	59,057,832.83	6,299,383.17	Not explained
Oct-Dec -13	61,257,984.00	75,236,444.00	13,978,460.00	„ „
Jan-March-14	116,777,441.00	113,406,343.00	3,371,098.00	„ „
April-June - 14	85,880,205.47	60,933,163.00	24,887,042.47	Month of May Missing
<b>TOTAL</b>	<b>329,272,846.47</b>	<b>308,693,782.83</b>		

The cash book collection account at Kenya Commercial Bank which appeared casually maintained did not indicate the source of these postings as it lacked reference numbers.

### Recommendations

- The County executive should reconcile the cash book deposits of Kshs.308,693,782.83 against the figure reflected in the schedule of Kshs.329,272,846.47.
- All the varices should be explained.

### **9.3 Over Re-Imbursement to National Treasury**

Although initial Correspondence from the National Treasury indicated that the County Government of Kakamega owed them an amount of Kshs.880,443,368.50. However, records available indicate that a total of Kshs.925,886,493.00 was paid out and recovered by the National Treasury as salary for devolved functions as follows;

- a) National Treasury deducted an amount of Kshs.468,941,021.00 at source as salary for staff of the devolved ministries.
- b) An amount of Kshs.456,945,472.00 had been paid directly by the County Government to various ministries as salary for the devolved staff.

This implies that the county Government overpaid the national Government by an amount of Kshs.45,443,124.50

### **Recommendation**

The county executive management should follow up with the National Treasury for reconciliation and refund of the overpayment.

### **10.0 FOREIGN AND DOMESTIC TRAVEL EXPENSES**

According to Government financial Orders, it is the responsibility of the Accounting Officer to keep proper books of Accounts in respect of all monies received and expended and the assets and liabilities of an entity.

Also auditors are entitled to all information and explanations necessary for their audit. The failure to sort out vouchers according to the codes limited the audit scope

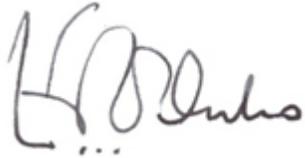
Payment vouchers with respect to the reported figure for domestic travel expenses of Kshs.281,648,397.00 were not sorted out. Neither was there a schedule of the same, the expenditure were therefore not auditable and thus the propriety of the total expenditure of Kshs.281,648,397.00 could not be confirmed.

### **Recommendations**

- The county executive Management should ensure Proper records are in place to explain all transactions undertaken and to show the financial position of the entity at any given time
- Management to adhere to the requirement of constitution and legislation entitling the auditors a right to all information necessary for audits

## **Conclusion**

The County Government should address the issues raised in the report for improved performance and service delivery to the County residents.

A handwritten signature in black ink, appearing to read 'E. Ouko', with three dots below the signature.

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

**Nairobi**

**29 May 2015**