

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

**REPORT**  
**OF**  
**THE AUDITOR–GENERAL**  
**ON THE**  
**FINANCIAL OPERATIONS**  
**OF**  
**HOMA BAY COUNTY**

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# **SPECIAL AUDIT REPORT ON THE OPERATIONS OF THE COUNTY GOVERNMENT OF HOMA BAY AND ITS DEFUNCT LOCAL AUTHORITIES FOR THE PERIOD 1 JANUARY TO 30 JUNE 2013**

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## **1. EXECUTIVE SUMMARY**

### **1.1 Introduction**

The Auditor-General has the mandate under Article 229 of the Constitution to audit and report on the accounts of the National and County Governments. Further, the County Government Act, 2012 Section 134 (1) repealed the Local Government Act, Cap 265, and thus effectively dissolving all the 175 Local Authorities and creating 47 County Governments.

According to Transition to Devolved Governments Act, 2012, after the general election on 4 March 2013, the functions, assets, liabilities and staff of the former Local Authorities were to be taken over by the County Governments. The objective of the special audit exercise was to ensure existence of a seamless transition process and proper systems for accountability of public resources before, during and after transition to County Governments.

### **1.2 Audit Objectives**

The audit covered the County Executive and County Assembly and the former County Council of Homa Bay, Town Council of Mbita, Town Council of Oyugis, Town Council of Kendu Bay, Municipal Council of Homa Bay, Suba County Council and County Council of Rachuonyo transactions for the period 1 January to 30 June, 2013 and took into account transactions before, during and after the transition period. The terms of reference set for the audit included verifications and confirmations of transactions in respect to but not limited to the following areas:

- ✓ The taking-over of the former Local Authority
- ✓ Cash and bank balances
- ✓ Current debtors and suppliers' balances
- ✓ Motor vehicles and office equipment
- ✓ IPPD Payroll and establishment
- ✓ Recurrent and development expenditure items
- ✓ Procurement and procurement procedures
- ✓ ICT and G-Pay System

**1.2.1** The audit teams faced several constraints during the audits, including delay in getting various documents and non-availability of key staff of the former Local Authorities. These constraints resulted in delay in concluding the audits within the planned timelines.

### **1.3 Key Audit Findings**

#### **1.3.1 County Executive of Homa Bay**

##### **1.3.1.1 Current assets and liabilities**

###### **Delay to close Bank Accounts**

All defunct Local Authorities were to close all operating bank accounts and transfer all funds to the County Government Revenue Account and obtain a closure of accounts certificate from the banks stating the amount so transferred. Contrary to the above directive, the defunct Councils continued operating the accounts, some of them to date thus defeating the purpose of the circular from the Transition Authority.

All the defunct Councils should immediately close all the bank accounts and transfer balances to the County Revenue Account and ensure monthly bank reconciliations are prepared to ascertain the exact amount to be transferred to the County Revenue Account. In addition, the County management should obtain banks confirmation certificates as at the time of closure of each bank account and separate cash book be opened for the County Assembly for proper accountability of funds allocated to the Assembly

##### **1.3.1.2 Meal Allowance**

Examination of payment voucher No. 640 dated 23 May 2013 in respect of travelling and accommodation and meal allowances revealed that County Members of Assembly who were on a retreat in Kisumu between 23 and 26 May, 2013 were paid per diem allowance to take care of their accommodation and meals. However, they were also paid meal allowance totaling Kshs.186,000.00 on top of the per diem resulting in double payment.

##### **1.3.1.3 Purchases not reflected on the fixed assets register**

It is a procedure that once assets have been acquired, they should be reflected in a fixed assets register which is properly detailed with all the description namely supplier, date, valuation, depreciation, and location of the assets. Various items costing Kshs.7,410,498.00 were purchased but the same were not recorded in the County assets register.

#### **1.3.2 Defunct Municipal Council of Homa Bay**

##### **1.3.2.1 Current assets and liabilities**

###### **(i) Creditors**

The Council, as at 30 June 2013 had not handed over to the County Government creditors totaling Kshs.77,970,476.00. Further the balance was not supported by a

creditors' ledger and a listing. Comparison of the balance as at 30 June 2013 against the one in the financial statement for 2011/2012 reveals variations which were not explained. Under the circumstance the correctness of the creditors figure as at 30 June 2013 could not be confirmed.

## **(ii) Debtors**

The debtors' figure of Kshs.37,439,016.00 as at March 2013 had not been handed over to the County Government. Comparison of the balance of Kshs.36,679,775.00 in the financial statements for 2011/2012 revealed that the debtors increased by Kshs.759,241.00, however no proper explanation was provided for the variance. The Ledgers availed for audit were not reconciling with the list of debtors.

### **1.3.2.2 Local Authority Transfer Fund**

The Local Authority Transfer Funds account had outstanding imprests of Kshs.1,098,100.00 as at 30 June 2013 and unsupported payment of Kshs.2,702,058.00. It was not clear whether the funds were put to the intended purpose and the Council got value for money.

### **1.3.2.3 Procurement**

During the period under review the Council incurred expenditure amounting to Kshs.6,870,911.00, mainly payments made to various firms for provision of legal services, insurance services and conducting of a baseline survey, where no procurement procedures were followed and documents confirming the provisions of the services were not availed for audit review. Under the circumstance the propriety of the expenditure could not be confirmed.

## **1.3.3 Defunct County Council of Homa Bay**

### **1.3.3.1 Current assets and liabilities**

#### **(i) Creditors**

The creditors balances amounting to Kshs.24,144,346.00 which had not been handed over to the County Government by the defunct County Council of Homa Bay were not supported by creditor's registers, original contract agreements, invoices, delivery notes, statements, schedules and payrolls. A forensic audit should be carried out to validate the creditors to be handed over to the County Government. Creditor balances should always be supported with valid documentation and analysis.

#### **(ii) Debtors**

Records availed indicate debtors balances totaling Kshs.3,698,430.00 had not been handed over to the County Government by the defunct County Council of Homa Bay. Outstanding debtor's balances were not supported by listings, debtor's registers, copies of invoices and demand notices. The outstanding debtor's balances have not been

incorporated in the books of the County Government. A stock take of unused receipt books held by the defunct local authorities at the time of changeover to the new series of receipt books by the County Government was not done. This omission is likely to have opened room for possible misappropriation of receipts from debtors.

### **1.3.3.2 Payment to Cashier**

The Council made salaries payment based on the Collective Bargain Agreement for retirees, deceased staff and casuals through cash withdrawals to the cashier.

However, the amount totaling Kshs.5,303,977.00 which was to be received by the beneficiaries or channeled to their bank accounts or paid to trustees of deceased staff could not be confirmed as received by them. The Council should avail the documents confirming that the beneficiary or next of kin received the funds and if not, full recovery should be made from the cashier.

### **1.3.3.3 Irregular Procurements**

During the period under review the Council procured goods and services amounting to Kshs.4,418,181.00 of which no local purchase/service orders were raised to the suppliers, and also no quotations were raised. Further, it was not possible to establish how these firms were identified. It was also observed that most payments were made in cash with a few paid by cheques. No stores records were produced to account for the receipt of goods. The expenditure of Kshs.4,418,181.00 could not be confirmed as a proper charge to the public funds.

### **1.3.3.4 Payments from LATF**

Homa-Bay County Council received a LATF allocation amounting to Kshs.41,061,779.00 on 22 February 2013 from the Ministry of finance. Most of this amount was utilized in servicing outstanding salary arrears including implementation of the new CBA, settling outstanding statutory deductions, unremitted Sacco deductions and bank loan deductions from employees. However, the propriety of Kshs.2,200,000.00 payable to Homa-Bay Sacco and a Mr. Obel could not be ascertained as supporting documents were not availed.

## **1.3.4 Defunct County Council Suba**

### **1.3.4.1 Current assets and liabilities**

#### **(i) Creditors**

During the period under review the Council handed over to the County Government creditors totaling Kshs.14,272,780.00 which were not supported. The creditors' ledger and the Creditors listing were also not reconciling. For example, Josam Prime Time Insurance Consultant was claiming Kshs.3,255,748.20 while the figure in the listing availed for audit was Kshs.2,893,191.00. The firm decided to retain a Council's vehicle

for non-payment of the service. Comparison of the listed creditors against the balance in the financial statements for 2011/2012 revealed variations which were not explained.

The Council should reconcile both the list and creditors ledger and a forensic audit should be carried out to validate the creditors to be taken over by the County Government.

## **(ii) Debtors**

The debtors' figure of Kshs.35,867,356.00 as at 31 March 2013 had not been handed over to the County Government. The Ledger availed for audit was not reconciling with the list of debtors. For example plot rent arrears as per ledger amounted to Kshs.1,557,772.00 while the list availed indicated a balance of Kshs.4,404,459.00. Green Forest Investment paid the Council Kshs.14,000,000.00 for trust land fee, while as at 30 June 2012 it was still being reflected as a debtor a fact which it disputed. Under the circumstance the accuracy of the debtors figure as at 30 June 2013 could not be confirmed.

A reconciliation of debtors' balances should be carried out and reconciled balances incorporated in the books of the County Government.

### **1.3.4.2 Unsupported Night-Out and Travelling Claims**

During the period under review the Council paid under travelling and accommodation item Kshs.3,039,520.00. However the payment vouchers had no supporting documents to show that the expenses were planned, budgeted for, and approved. Under the circumstances the propriety of the expenses could not be ascertained.

The Council should support the payments or recovery should be made from the officers who received the money.

### **1.3.4.3 Procurement of goods and services**

#### **(i) Cash Purchase**

During the period under review the Council procured goods on cash bases amounting to Kshs.513,600.00 of which no supporting documents were availed for audit verification. Under the circumstance the propriety of the expenses could not be ascertained.

#### **(ii) Unaccounted for Expenditure**

During the period under review the Council incurred expenses amounting Kshs.1,547,799.00. However, no supporting documents for the expenditures were availed for audit verification. Under the circumstances it could not be confirmed whether the council got value for money.



### **(iii) Tuition Fee Not Accounted for**

During the period under review the Council paid tuition fee to staff members totaling Kshs.1,141,220.00. However no supporting documents for the expenditure were availed for audit verification. Under Government regulations it is a requirement that training sponsorship by the government should be properly documented by letters of request, approval, admission letters and fee receipt. Under the circumstance it could not be confirmed whether the funds were put under the intended purpose.

### **(iv) Defunct County Council of Rachuonyo**

#### **1.3.4.4 Current Assets and Liabilities**

##### **(i) Creditors**

The Creditors List as at 31 March 2013 was not prepared and forwarded to the Transitional Authority by the Council. Consequently it was not possible to confirm the creditors figure as at the time of audit in September 2013.

##### **(ii) Debtors**

Debtors list as at 31 March 2013 was not provided by the Council. It was therefore not possible to confirm the debtors figure as at the time of audit September 2013.

#### **1.3.4.5 LATF Payments**

During the period under review the Council incurred expenses totaling Kshs.4,310,000.00 under the LATF account. However, no supporting documents for the expenditure were availed for audit verification. Under the circumstances the propriety of the expenditure could not be confirmed.

## **1.4 Defunct Town Council of Mbita**

### **1.4.1.1 Current Assets and Liabilities**

#### **(i) Cash Shortage**

Records of revenue collection at the defunct local authority, revealed that revenue collection from March 2013 up to the time of audit in September 2013 totaled Kshs.7,363,221.00. However, only Kshs.6,726,001.00 was banked resulting in a difference of Kshs.611,420.00 which could not be explained.

#### **(ii) Creditors**

The Council had not handed over to the County Government creditors totaling Kshs.12,560,737.00 which were not supported and the creditors' ledger was also not availed for audit verification. Comparison of the listed creditors against financial statements for 2011/2012 balance reveals variations which were not explained. Under

the circumstance the accuracy of the creditors figure as at 30 June 2013 could not be confirmed.

### **(iii) Debtors**

The debtors' figure of Kshs.765,400.00 as at 31 March 2013 had not been handed over to the County Government. The Ledger availed for audit was not reconciling with the list of debtors. Sewer Bills, Single business permits, outstanding imprests were omitted from list of debtors. Under the circumstance the correctness of the debtors figure as at 30 June 2013 could not be confirmed.

#### **1.4.1.2 Outstanding Revenue Books**

During the year under review revenue books total collection of Kshs.474,720.00 had not been accounted for by 3 September 2013. Further, 29 revenue books issued to revenue collection staff had not been accounted for and no explanation was provided. It was therefore not possible to ascertain whether revenue collection target was met.

#### **1.4.1.3 LATF Payments**

During the year under review the Council incurred expenses amounting to Kshs.540,959.00 of which supporting documents were not availed for audit. It was therefore not possible to confirm the propriety of the expenditure.

#### **1.4.1.4 Imprest Not Accounted for**

The Council's outstanding imprest was Kshs.517,160.00 as at 30 June 2013 some of which dates back to July 2012. No explanation was provided by the management for non recovery and it is not clear why the staff could not account for the funds. Under the circumstances it was not possible to ascertain whether the imprest was applied to the intended purpose of the Council. The officers responsible should be made to account for the imprests or recovery made from their salaries.

### **1.5 Town Council of Oyugis**

#### **1.5.1.1 Current Assets and Liabilities**

##### **(i) Creditors**

The Council had not handed over to the County Government creditors balance of Kshs.36,914,484.00 which was also not supported. The creditors' ledger and the list of Creditors were not reconciling. For example Ombeyi Printing Agencies ledger figure of Kshs.12,000.00 was not the same with the list figure of Kshs.218,000.00. Comparison of the listed creditors against financial statements for 2011/2012 balance reveals variations which were not explained. Under the circumstance the correctness of the creditors figure as at 30 June 2013 could not be confirmed.

## **(ii) Debtors**

The debtors list totaling Kshs.1,592,254.00 includes salary advance of Kshs.425,954.00 which had not been accounted for by the officers who had been transferred to Sub-Counties and the County Government had not been provided with the list of the outstanding salary advances. Under the circumstance, the amount may not be recovered. It was also observed that the debtors ledger has not been up dated.

### **1.5.2 Defunct Town Council of Kendu Bay**

#### **1.5.2.1 Creditors**

The Council handed over to the County Government creditors amounting to Kshs.8,567,578.00 which were not supported. The creditors' ledger and the Creditors listing were also not reconciling. Further, the outstanding audit fee of Kshs.1,800,000.00 was not included in the creditors figure understating it by the same amount. Comparison of the listed creditors against financial statements for 2011/2012 balance reveals variations which were not explained. Under the circumstance the accuracy of the creditors figure as at 30 June 2013 could not be confirmed.

#### **1.5.2.2 LATF Payments**

During the year under review the Council incurred expenditure amounting to Kshs.2,901,780.00. These expenses were not authorized by either the Town clerk or the treasurer and were also not supported. Under the circumstance the propriety of the expenditure could not be confirmed.

### **1.5.3 Information systems assessment**

#### **1.5.3.1 Hardware**

The County received nineteen (19) computers and sixteen (16) UPS from The National Treasury (IFMIS Department) which was solely to be used for IFMIS.

#### **1.5.3.2 Integrated Financial Management Information System (IFMIS)**

IFMIS operations were being carried at the Office of the Governor. However, at the time of audit, the County was not using the Procure to Pay module in the IFMIS and payment transactions were executed manually.

#### **1.5.3.2.1 Local Authority Integrated Financial Operations Management System (LAIFOMS)**

LAIFOMS was installed only in the Homa Bay Municipal Council. The revenue collection process in all the other Sub Counties is manual.

A review of the system at the Municipal Council of Homa Bay revealed that Kshs.6,615,630.00 was collected between 1 July 2012 and 10 October 2013 but no banking was captured in the LAIFOMs system.

### **1.5.3.3 Integrated Payroll and Personnel Database (IPPD)**

The County started the first payroll using IPPDs in August 2013 and the following issues came out from our analysis.

- No Segregation of duties in the system
- Training for the users was reported to be inadequate.
- ICT officers had not been trained to support the system operations.

The system also lacked validity checks, complete checks and range checks. The following anomalies were revealed from the data analysis.

- Duplicate bank accounts; 10 officers sharing five (5) bank accounts
- No Salary increment date for 108 officers
- Wrong Date of Birth for 89 officers
- No posting date for 44 officers
- Wrong date of hiring for 70 officers
- No audit trail; the fields for “date and time edited” and “who Edited” were blank
- Wrong IDs for 6 officers
- Wrong Tax PINs for 23 officers

### **1.5.3.4 IT Control Environment and ICT Governance**

- The County had inadequate ICT staff to provide support to the applications in place.
- The staff had relevant knowledge and skills on IT field but they had not been trained on the application in place i.e. LAIFOMs, IPPD and IFMIS for them to be able to offer adequate support to the system users
- The County management is yet to develop and implement some of the key ICT documents including; ICT Strategic Plan, ICT policies and procedures, the ICT assets register, Business Continuity Policies (BCP) and Disaster Recovery Plans (DRP). There was also no ICT Steering Committee in place and the ICT policies and procedures in place had not been approved.
- The IPPD and G-PAY servers are located in the human Resource office and accounts office respectively where accessibility is not restricted with adequate physical access controls.

## **Conclusion**

The forgoing observations clearly indicate that the process of taking over of assets and liabilities, including staff of the former Councils was not properly handled due to apparent lack of leadership by officials of Transition Authority who had the responsibility to ensure a smooth and seamless transition process. The County Government should however ensure full control of functions, including revenue collection, recording and proper accounting for the same while awaiting guidance from the National Treasury based on the accounting and reporting systems to be developed by the Public Sector Accounting Standards Board in accordance with Section 194 of the PFM Act, 2012. Expenditure should be incurred in accordance with the requirements of the Public Finance Management Act, 2012 and for the benefit of the taxpayers.

Detailed audit findings are contained in the main audit report herewith appended.

A handwritten signature in black ink, appearing to read 'E. Ouko', with a stylized flourish at the end.

**Edward R.O. Ouko, CBS**  
**Auditor-General**

**Nairobi**

**04 February 2014**

## **DETAILED AUDIT REPORT**

### **1.6 Introduction**

The County Government of Homa Bay replaced five defunct Local Authorities namely County Council of Homa Bay, Town Council of Mbita, Town Council of Oyugis, Town Council of Kendu Bay, Municipal Council of Homa Bay, Suba County Council and County Council of Rachuonyo. It was established after the 4 March 2013 elections to carry out the devolved functions set out in the Constitution of Kenya.

The audit sought to verify County Government preparedness to receive and utilize devolved funds before, during and after transition period. The audit specifically sought to: (a) ascertain the correctness of cash and bank before, during and after transition; (b) confirm the level of current debtors and suppliers balances; (c) confirm that IFMIS and G-Pay system has been installed and are in operation in the County Government; (d) establish that the motor vehicles and office equipment owned by the defunct Local Authorities have been taken over by the County Government; (e) examine the revenue collection at Sub-County levels from January to June 2013; and, (f) examine payroll in LAIFOM in July 2012, December 2012, February 2013 and IPPD payroll in 30 June 2013.

### **1.7 Terms of Reference**

The Office of the Auditor-General is an independent office mandated by the Constitution (Art 229) to audit the accounts of the National and County Government. In this regard the office planned an audit for the County Government of Homa Bay with the following terms of reference:

- a) Verification of cash and bank transactions held at various accounts in the defunct local authorities during the period of transition between 5 March and 30 June 2013.
- b) Examination of transactions of defunct local authorities between 01 January and 30 June 2013.
- c) Examination of transactions of the County Government and County Assembly between 5 March and 30 June 2013.
- d) Check the closure of bank accounts as directed by Transitional Authority.
- e) Check proper Procurement procedures as per procurement Act, 2005 & 2006.
- f) Check current debtors and suppliers' balances.
- g) Operation of IFMIS and G-Pay.

- h) Motor vehicles and equipment.
- i) Confirm whether County Bank Accounts were opened on 04 March 2013.
- j) IPPD Payrolls – Ghost workers in payroll.
- k) Irregular borrowings, overdrafts and payment of non-existing loans.

The audit was conducted in the month of August and September, 2013

## **1.8 Methodology**

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

- Interviews with key officers at the County headquarters and defunct Local Authorities.
- Review of applicable legislation and regulations
- Assessment of internal control.
- Examination of Payment vouchers, cash book, vote book, bank statements, bank slips, tender and contract documents, stores records and other related records.
- Review of meetings' minutes where there was resolution affecting management of cash.
- Physical Inspection/Verifications
- Verify the Bank Reconciliation Statements as at 30 June 2013.

## **2. Key Audit Findings**

### **2.1 County Executive**

#### **2.1.1 Delay to close Bank Accounts**

All defunct Local Authorities were to close all operating bank accounts and transfer all funds to the County Government Revenue Account and obtain a closure of accounts certificate from the banks stating the amount so transferred.

#### **Findings**

- Contrary to the above directive, the defunct Councils continued operating the accounts and some of them at the time of audit thus defeating the purpose of the circular from the Transition Authority.
- The cash books were not balanced as required hence it was not possible to ascertain cash balances as at 28 February 2013.
- No bank reconciliations were availed for verifications and it was not possible to ascertain the balances in the bank at any given time.

- Confirmation certificates for the bank balances and subsequent transfer to County Revenue Account were not availed for verification and confirmation, while the accounts had still not been closed as required.
- Bank statement and reconciliation statements for the defunct local authorities were not availed hence the correctness of the cash could not be ascertained.
- We were not able to verify the balances in the previous accounts held by the Town Council of Mbita where six bank account statements were not availed and no reconciliations were done and availed to us for verifications.

### **Recommendation**

- Immediate closure of the bank accounts and transferring any monies in those accounts to the Revenue Account of the County Government of Homa Bay
- Reconciliations should be done to ascertain the exact amount to be transferred to the County Revenue Account.
- Make available banks confirmation certificates as at the time of closure of each bank account.
- A separate cash book should be opened for the County Assembly for proper accountability of funds allocated to the Assembly

### **2.1.2 Meal Allowance**

Examination of payment voucher No. 640 dated 23 May 2013 in respect of travelling and accommodation and meal allowance revealed that County Assembly members were on retreat from 23 May to 26 May in Kisumu and they were paid per diem allowance to take care of both meals and accommodation. However, they were paid meal allowance of Kshs186,000.00 on top of the per diem leading to a double payment.

### **Recommendation**

- Recoveries of Kshs. 186,000.00 should be made from the Assembly Members.

### **2.1.3 Non-Current Assets not reflected in the fixed assets registered**

Various items were purchased but there were no records to show that the items were recorded in the County assets register. The total purchase was Kshs.7,410,498.00.

### **Finding**

The physical verification of the assets could not be ascertained since the fixed assets register had not been updated.

### **Recommendation**

- Proper assets register should be maintained and all the assets entered.



#### **2.1.4 Information Financial Management Integrated System (IFMIS)**

It was reported by the County Finance officer and head of accounts that the IFMIS has been installed for Treasury operations.

Physical verification revealed that IFMIS components of a) Plan to budget and b) IFMIS E-business systems were installed, but it was not possible to walk through the system due to low internet capacity. Transactions are not processed through IFMIS and this defeats the purpose of connecting it.

#### **Recommendation**

- Right bandwidth of the internet to support operations should be sourced.
- IFMIS should be operated fully to capacity.

### **2.2 Defunct Municipal Council of Homa Bay**

#### **2.2.1 Creditors**

During the period under review the Council had not handed over to the County Government creditors amounting to Kshs.77,970,476.00. These creditors were not supported and the creditors' ledger was not availed for audit. Comparison of the listed creditors against financial statements for 2011/2012 balance reveals variations which were not explained. Under the circumstance the correctness of the creditors figure as at 30 June 2013 could not be confirmed.

#### **Recommendation**

A forensic audit should be carried out to validate the creditors to be inherited and paid by the County Government.

#### **2.2.2 Debtors**

The debtors' figure of Kshs.37,439,016.00 as at March 2013 had not been handed over to the County Government. Comparison of the figure of Kshs.36,679,775.00 for 2011/2012 revealed that the debtors increased by Kshs.759,241.00 and no proper explanation was provided for the increase. The Ledger availed for audit was not reconciling with the list of debtor. For example Plot rents for plot No.1432/4 and No.1443/51 of Kshs.9,078.00 and Kshs.206,280.00 respectively, Temporary Sites rent, South Nyanza Water Company Sewer Bills, Single business permits and outstanding imprests were omitted from the list of debtors. Under the circumstance the correctness of the debtors figure as at 30 June 2013 could not be confirmed.

#### **Recommendation**

- A reconciliation of debtors' balances should be carried out and reconciled balances incorporated in the books of the County Government

- Proper debt collection should be put in place

### **2.2.3 Local Authority Transfer Fund**

The Local Authority Transfer Funds account had outstanding imprests amounting to Kshs.1,098,100.00 as at 30 June 2013 and unsupported payments of Kshs.2,702,058.00. It was not clear whether the funds were put to the intended purpose and the Council got value for money.

#### **Recommendation**

- The Council should recover the outstanding imprest of Kshs 1,098,100 from the concerned staff.
- The Council should support the payment or recovery made from the officers who received the money.

### **2.2.4 Procurement**

During the year under review the Council incurred expenditure amounting to Kshs.6,870,911.00 which were made to various firms for provision of legal services, insurance services and conducting a baseline survey. Proper procurement procedures were not followed and documents confirming that the services were provided were not availed for audit verification. Under the circumstance the propriety of the expenditure could not be confirmed.

#### **Recommendation**

- The Council should follow the procurement regulations while procuring goods and services.

## **2.3 Defunct County Council of Homa Bay**

### **2.3.1 Creditors**

The creditors balances amounting to Kshs.24,144,346.00 which had not been handed over to the County Government by the defunct County Council of Homa Bay were not supported by creditor's registers, original contract agreements, invoices, delivery notes, statements, schedules and payrolls.

#### **Recommendation**

- A forensic audit should be carried out to validate the creditors to be taken over by the County Government.

### **2.3.2 Debtors**

Records availed indicate debtors balances amounting to Kshs.3,698,430.00 had not been handed over to the County Government by the defunct County Council of Homa Bay.

Outstanding debtor's balances were not supported by listings, debtor's registers, copies of invoices and demand notices. The outstanding debtor's balances have not been incorporated in the books of the County Government. Further, the debtors figure does not include the staff and councilors advances and outstanding imprests.

A stock take of unused receipt books held by the defunct local authorities at the time of changeover to the new series of receipt books by the County Government was not done. This omission is likely to have opened room for possible misappropriation of receipts from debtors.

#### **Recommendation**

- A reconciliation of debtors' balances should be carried out and reconciled balances incorporated in the books of the County Government
- Proper debt collection should be put in place

### **2.3.3 Payment to Cashier**

The Council made salaries payment based on the Collective Bargain Agreement through the cashier to the retirees, deceased staff and casuals.

The sum totaling Kshs.5,303,977.00 which was to be received by the beneficiaries or channeled to their bank accounts or to trustees were received by the cashier. It could not be confirmed whether the funds were received by the correct beneficiaries or next of kin.

#### **Recommendation**

- The Council should avail the documents confirming that the beneficiary or next of kin received the funds and if not, recovery should be made from the cashier.

### **2.3.4 Irregular Procurement**

During the period under review the Council procured goods and services worth Kshs.4,418,181.00 of which neither local purchase/service orders nor quotations were raised to the suppliers. It could not be established how the firms were identified. It was also observed that most payments were made in cash with a few paid by cheques. No stores records were produced to account for the receipt of goods received. The expenditure of Kshs.4,418,181.00 could not be confirmed as a proper charge to public funds.

## **Recommendation**

- The Council should adhere to procurement procedures and the procurement documents should be availed or recovery should be made from the officers who have received the money

### **2.3.5 Payments from LATF**

Homa-Bay County Council received a LATF allocation amounting to Kshs.41,061,779.00 on 22 February 2013 from the Ministry of Finance. Most of this amount was utilized in servicing salary arrears including implementation of the new CBA, settling of statutory deductions not remitted and unremitted Sacco and bank loan deductions from employees.

It was observed that payments amounting to Kshs.1,500,000.00 was paid to Homa-Bay sacco (HOBACCE) as per cheque No.2715, payment voucher No. 55/2, and cheque No. 2716, payment voucher No. 56/2 and Kshs.700,000.00 to a Mr. Obel as per cheque No. 2714, payment voucher No. 54/2 being BBF payment. However the foregoing cheques were drawn in the name of the cashier and encashed and the cash purported to have been paid to the payees on vouchers. Further no supporting schedules were produced to support these payments. It was not clear why cash mode of payment was preferred as this posed risks over these transactions. The propriety of these payments of Kshs.2,200,000.00 could not be ascertained.

## **Recommendation**

- **The payments should be investigated to confirm their propriety.**

## **2.4 Defunct County Council Suba**

### **2.4.1 Creditors**

During the period under review the Council handed over to the County Government creditors amounting to Kshs.14,272,780.00 which were not supported. The creditors' ledger and the list of Creditors were also not reconciling. For example, Josam Prime Time Insurance Consultant is claiming Kshs.3,255,748.20 while the figure in the listing availed for audit is Kshs.2,893,191.00. The firm decided to retain the Council's vehicle for non-payment for the service. Comparison of the listed creditors against financial statement for 2011/2012 balance reveals variations which were not explained. Under the circumstance the correctness of the creditors figure as at 30 June 2013 could not be confirmed.

## **Recommendation**

- A forensic audit should be carried out to validate the creditors to be inherited by the County Government.

### **2.4.2 Debtors**

The debtors' figure of Kshs.35,867,356.00 as at 31 March 2013 had not been handed over to the County Government. The Ledger availed for audit was not reconciling with the list of debtors. For example Plot rent arrears as per the ledger amounts to Kshs.1,557,772.00 while the list availed reflects Kshs.4,404,459.00. Green Forest Investment paid the Council Kshs.14,000,000.00 for trust land fee, while as at 30 June Trust Land Fee was still being reflected as outstanding, a fact disputed by the client. Under the circumstance the correctness of the debtors figure as at 30 June 2013 could not be confirmed.

## **Recommendation**

- A reconciliation of debtors' balances should be carried out and reconciled balances incorporated in the books of the County Government
- Proper debt collection should be put in place.

### **2.4.3 Unsupported Night-Out and Travelling Claims**

During the period under review the Council paid travelling and accommodation of Kshs.2,624,520.00 and night out claim of Kshs.415,000.00. However the payment vouchers had no supporting documents to show how the amount was arrived at. Under the circumstances the propriety of the expenses could not be ascertained.

## **Recommendation**

- The Council should support the payment or recovery should be made from the officers who received the money.

### **2.4.4 Cash Purchase**

During the period under review the Council procured goods on cash basis amounting to Kshs.513,600.00. However no supporting documents were availed for audit verification. Under the circumstance the propriety of the expenses could not be ascertained.

## **Recommendation**

- The Council should support the payment or recovery should be made from the officers who received the money.

### **2.4.5 Unaccounted for Expenditure**

During the period under review the Council incurred expenses amounting to Kshs.1,547,799.00. However no supporting documents were availed for audit

verification. Under the circumstances it could not be confirmed whether the Council got value for money.

### **Recommendation**

- The Council should support the payment or recovery should be made from the officers who received the money.

### **2.4.6 Tuition Fee Not Accounted for**

During the period under review the Council paid tuition fee to staff members amounting to Kshs.1,141,220.00. No supporting documents were availed. Under Government regulations it is a requirement that training sponsorships by government should be properly documented by the letters for request, approval, admission letters and fee receipt. Under the circumstance it could not be confirmed whether the funds were put under the intended purpose.

### **Recommendation**

- The Council should support the payment or recovery should be made from the officers who received the money.

## **2.5 Defunct County Council of Rachuonyo**

### **2.5.1 Creditors**

Creditors List as at 31 March 2013 was not provided by the Council and it was therefore not possible to confirm the creditors figure as at the time of audit in September 2013.

### **Recommendation**

- The Council should avail both the list and creditors ledger for audit verification
- A forensic audit should be carried out to validate the creditors to be inherited by the County Government of Homa-Bay.

### **2.5.2 Debtors**

Debtors list as at 31 March 2013 was not provided by the Council and it was therefore not possible to confirm the debtors figure as at the time of audit in September 2013

### **Recommendation**

- The Council should avail the debtors list and ledger for audit verification
- A reconciliation of debtors' balances should be carried out and reconciled balances incorporated in the books of the County Government
- Proper debt collection should be put in place

### **2.5.3 LATF Payments**

During the period under review the Council incurred expenses amounting to Kshs.4,310,000.00. However no supporting documents were availed for audit verification. Under the circumstances the propriety of the expenditure could not be confirmed.

#### **Recommendation**

- The Council should support the payment or recovery should be made from the concerned officers.

## **2.6 Defunct Town Council of Mbita**

### **2.6.1 Cash Shortage**

The cash survey conducted on revenue collection between March 2013 and the time of audit in September 2013 revealed an amount of Kshs.7,363,221.00. However only Kshs.6,726,001.00 was banked resulting in a difference of Kshs.611,420.00 which could not be explained. The Sub-County should investigate the loss and make recovery.

#### **Recommendation**

- The Council should reconcile the receipt books , cash book and the bank slips or recovery from the office concern

### **2.6.2 Creditors**

The Council had not handed over to the County Government creditors amounting to Kshs.12,560,737.00. The figure was not supported and the creditors' ledger was not availed for audit verification. Comparison of the listed creditors against 2011/2012 financial statements balance revealed variations which were not explained. Under the circumstance the correctness of the creditors figure as at 30 June 2013 could not be confirmed.

#### **Recommendation**

- The Council should avail both the list and creditors ledger for audit verification
- A forensic audit should be carried out to validate the creditors to be inherited and paid by the County Government of Homa-Bay.

### **2.6.3 Debtors**

The debtors' figure of Kshs.765,400.00 as at 31 March 2013 had not been handed over to the County Government. The Ledger availed for audit was not reconciling with the list of debtors. Sewer Bills, Single business permits and outstanding imprests were omitted from the list of debtors. Under the circumstance the correctness of the debtors figure as at 30 June 2013 could not be confirmed.

## **Recommendation**

- A reconciliation of debtors' balances should be carried out and reconciled balances incorporated in the books of the County Government
- Proper debt collection should be put in place

### **2.6.4 Outstanding Revenue Books**

Revenue collection books with total collections of Kshs.474,720.00 had not been accounted for by 3 September 2013 and an additional 29 revenue books issued to revenue collectors had not been accounted for. No explanation was provided. It was therefore not possible to ascertain whether revenue collection target was met. It is appropriate that the staff concerned should be made to account for the funds and receipt books.

## **Recommendation**

- The Officers should account for the collection or recovery should be made from the officers who were collecting the money and all revenue books issued during the period should be accounted for.

### **2.6.5 LATF Payments**

During the period under review the Council incurred expenses amounting to Kshs.540,959.00 but the supporting documents were not availed for audit. It was therefore not possible to confirm the propriety of the payments.

## **Recommendation**

- The Council should support the payment or recovery should be made from the officers who authorized the expenditure.

### **2.6.6 Imprests Not Accounted for**

The Councils outstanding imprests totaled to Kshs.517,160.00 as at 30 June 2013, some of which date back to July 2012. No explanation was provided by the management and it is not clear why the staff could not account for the imprests. Under the circumstances it was not possible to ascertain whether the imprests were put into official use.

## **Recommendation**

- Recovery should be made from the officers who received the money.



## **2.7 Defunct Town Council of Oyugis**

### **2.7.1 Creditors**

The Council had not handed over to the County Government creditors amounting to Kshs.36,914,484.00 which were also not supported. The creditors' ledger and the list of creditors were also not reconciling. For example Ombeyi Printing Agencies Ledger figure was Kshs.12,000.00 while the List figure was Kshs.218,000.00. Comparison of the listed creditors against the 2011/2012 financial statements revealed variations which were not explained. Under the circumstance the correctness of the creditors figure as at 30 June 2013 could not be confirmed.

#### **Recommendation**

- The Council should reconcile both the list and creditors ledger
- A forensic audit should be carried out to validate the creditors to be inherited and paid by the County Government

### **2.7.2 Debtors**

The debtors list of Kshs.1,592,254.00 includes salary advances of Kshs.425,954.00 which had not been accounted for by the officers who had been transferred to other Sub-Counties and the County Government had not been provided with the list of outstanding advances. Under the circumstance the amount may not be recovered. It was also observed that the debtors ledger had not been up dated.

#### **Recommendation**

- A reconciliation of debtors' balances should be carried out and reconciled balances incorporated in the books of the County Government
- Proper debt collection should be put in place
- The salary advances should recovered from the officers as they are still in service but within the county

## **2.8 Defunct Town Council of Kendu Bay**

### **2.8.1 Creditors**

During the period under review the Council handed over to the County Government creditors amounting to Kshs.8,567,578.00 which were not supported. The creditors' ledger and the list of Creditors were also not reconciling. Further, the outstanding audit fee of Kshs.1,800,000.00 was not included in the creditors figure understating it by the same amount. Comparison of the listed creditors against 2011/2012 financial statements for balance revealed variations which were not explained. Under the circumstance the correctness of the creditors figure as at 30 June 2013 could not be confirmed.

## **Recommendation**

- The Council should reconcile both the list and creditors ledger, to reflect all creditors with the correct balances
- A forensic audit should be carried out to validate the creditors to be inherited and paid by the County Government of Homa Bay

### **2.8.2 LATF Payments**

During the period under review the Council incurred expenditure amounting to Kshs.2,901,780.00 under the LATF account. However these expenses were not authorized by either the Town clerk or the Treasurer and were also not supported. Under the circumstance the propriety of the expenditure could not be confirmed.

## **Recommendation**

- The Council should support the payment or recovery should be made from the officers who authorized the expenditure.
- Proper internal control should be adhered to concerning the authorization of expenses

## **2.9 Information systems assessment**

### **2.9.1 Hardware**

The County received nineteen (19) computers and sixteen (16) UPS from The National Treasury (IFMIS Department) which were solely to be used for IFMIS, one (1) computer from CBK for G-Pay and twenty (20) modems. It was also reported that two of the monitors received were faulty. The County had two servers in place; one for LAIFOMs and the other for IPPD.

### **2.9.2 Network Connectivity**

There was a LAN in the office of the governor; however, there is no wide area network to sub connect all Sub Counties.

## **Recommendations**

- All Sub-County Offices should have adequate infrastructure and LAN to facilitate automation of the County operations.
- The County should ensure that all its Sub-County offices are inter-connected to the head office to ensure efficient monitoring of each Sub-County processes.

### **2.9.3 Integrated Financial Management Information System (IFMIS)**

IFMIS installation and setup had been done at the Homa bay Governors offices. However, the Procure to Pay module was not in use and all payment processes were carried out manually.

The ICT manager had done a circular to inform the County management that the Implementation of G-PAY and IFMIS had been completed. The payment process using IFMIS was set to begin with effect from 1 Oct 2013. However, by the time of our exit meeting on 10 Oct 2013, the payment process was still manual.

IFMIS department provided the County Government with anti-virus software but without activation key to allow it to function.

#### **2.9.3.1 Training of County Staff**

At the time of Audit, majority of staff were undergoing training on IFMIS at Kenya School of Government

#### **2.9.3.2 Connectivity**

IFMIS provided fifteen (15) Orange MODEMS to facilitate connections to the main server which is at the National Treasury head office; however, the County was not using IFMIS at the time of Audit.

### **Recommendations**

- The County should ensure that all its financial operations are automated.
- The ICT Department should ensure that all machines are installed with anti-virus software to prevent the risk of virus attacks.

#### **2.9.3.3 Local Authority Integrated Financial Operations Management System (LAIFOMS).**

LAIFOMS was installed only in the Homa Bay Municipal Council. The revenue collection process in all the other Sub Counties is manual.

An analysis of the data extracted from the system of Sub-County revealed that officers of the County were not fully utilizing the Receipting Module where all monies received should be banked and the corresponding banking slips posted in the system.

A review of the system at the Municipal Council of Homa-Bay revealed that Kshs.6,615,630.00 was collected between 1 July 2012 and 10 October 2013 but no banking was captured in the LAIFOMs system.

DATE	PARTICULARS	AMOUNT
2nd July 2012 to 27th Feb 2013	Receipts	2,128,556.00
6th March 2013 to 10th Oct 2013	Receipts	4,487,074.00
	Total Receipts	6,615,630.00

## Risks

- i. Lack of automated systems in the other Sub-Counties may make it impossible for the County to effectively monitor its revenue collection.
- ii. Lack of proper monitoring of controls to ensure intact banking may lead to misappropriation of funds while spending at source.

## Recommendations

- The County should ensure that each Sub-County has a system in place to monitor the collection of its revenue and ensure that all expenditure incurred is centralized.

### 2.9.4 IT Control Environment

#### 2.9.4.1 Staffing and Segregation of duties

The County had inadequate ICT staff to provide support to the applications in place.

#### Recommendation

- The IT County Department should be enhanced in terms of personnel to adequately manage the IT operations in an efficient and effective manner. The roles and responsibilities should be defined and documented to ensure segregation of duty.

#### 2.9.4.2 Management of IT Operations

In order to govern and manage the IT operations, the County is yet to develop and implement some of the key ICT documents including; ICT strategic plan, Information Security Policy, BCP/DRP, Network diagram as well as the ICT policy and procedure which was in a draft form. The County had no ICT steering committee in place

#### Recommendations

- The County Executive and Management should develop, approve, communicate and implement the respective ICT policies, IT Strategic Plan, Business Continuity Plan and Disaster Recovery Plan that ensure proper management of IT operations.

- The County should ensure that a properly constituted IT Steering Committee is in place.

#### **2.9.4.3 Physical Controls**

The County did not have a LAIFOMS' server room and the server had been placed in an office where revenue collection operations were being carried out from. The County should set aside a room specifically for servers, properly fitted with the following conditions as control measures:

- Air conditioner to maintain room temperature.
- Fire extinguisher.
- Smoke detector.
- Alarm to alert in case of illegal access or fire.
- The server room should not be used as an office to run day to day operations.

#### **Conclusion**

The forgoing observations clearly indicate that the process of taking over of assets and liabilities, including staff of the former Councils was not properly handled due to apparent lack of leadership by officials of Transition Authority who had the responsibility to ensure a smooth and seamless transition process. The County Government should however ensure full control of functions, including revenue collection, recording and proper accounting for the same while awaiting guidance from the National Treasury based on the accounting and reporting systems to be developed by the Public Sector Accounting Standards Board in accordance with Section 194 of the PFM Act, 2012. Expenditure should be incurred in accordance with the requirements of the Public Finance Management Act, 2012 and for the benefit of the taxpayers.



**Edward R.O. Ouko, CBS**  
**Auditor-General**

**Nairobi**

**04 February 2014**