

REPUBLIC OF KENYA



REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL OPERATIONS OF
HOMA BAY COUNTY ASSEMBLY**

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

TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
BACKGROUND INFORMATION.....	1
Introduction.....	1
Terms of Reference	1
Methodology.....	1
Scope and Determination of Responsibilities	2
KEY AUDIT FINDINGS	2
1. Lack of Internal Audit Function and Audit Committee	2
2. IT Internal Control Environment.....	2
3. Cash Management.....	2
4. Ward Offices Operation Expenses	2
5. Rent Payment for Ward Offices	3
6. Unaccounted for Imprests for Transport Allowance	3
7. Mileage Allowance	3
8. Withholding Tax Not Deducted From Contractors.....	3
9. Unaccounted For Provision Sum and Contingency	3
10. Unauthorized Reallocation of Funds	3
11.0 Non-Current Assets	4
11.1 Purchase of Furniture by MCAs.....	4
11.2 Procurement of Furniture and Equipment.....	4
12. Payment of Mobilization Fund to MCA's.....	4
13. Double Claim on Travelling and Accommodation	4
DETAILED FINDINGS.....	5
1. Lack of Internal Audit Function and Audit Committee	5
3. Cash Management	5
4. Ward Offices Operation Expenses	5
5. Rent Payment for Ward Offices	6
6. Unaccounted for Imprests for Transport Allowance	6

7. Mileage Allowance	6
8. Withholding Tax Not Deducted From Contractors.....	7
9. Unaccounted For Provision Sum and Contingency	7
10. Unauthorized Reallocation of Funds	7
11.0 Non Current Assets.....	7
11.1 Purchase of Furniture by MCAs	7
11.2 Procurement of Furniture and Equipment	8
12. Payment of Mobilization Fund to MCA's	8
13. Double Claim on Travelling and Accommodation	9

REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL OPERATIONS OF HOMA BAY COUNTY ASSEMBLY FOR THE PERIOD 1 JULY 2013 TO 30 JUNE 2014

EXECUTIVE SUMMARY

BACKGROUND INFORMATION

The Constitution of Kenya, 2010 created a decentralized system of government by setting up forty seven (47) County Governments. Homa Bay County is composed of the County Executive and County Assembly which is the legislative arm of Government. The County Assembly has forty (40) elected members and twenty three (23) nominated members all totaling to sixty three (63) members.

Introduction

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

Terms of Reference

The Office of the Auditor-General is an independent office mandated by the constitution in (Article 229) to audit the accounts of the National and County Government. In this regard, the office planned an audit of the systems of financial controls of Homa Bay County for the period July 2013 to 30 June 2014 with the following terms of references:

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

Methodology

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

- Interviews with key officers at the County headquarters.
- Review of applicable legislation and regulations.

- Examination of payment vouchers, cashbooks, vote books, bank statements, bank slips, receipt books, procurement documents, stores records, asset registers and other related records.
- Review of minutes of various meetings where there were resolutions regarding utilization of public funds.
- Physical inspection and verifications
- Observation of processes and activities.
- Review of documents used by management to monitor use of funds.

Scope and Determination of Responsibilities

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

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

KEY AUDIT FINDINGS

1. Lack of Internal Audit Function and Audit Committee

The County Assembly does not have an internal audit function and audit committee in place as per the requirement of Section 155 (5) of Public Finance Management Act, 2012. It was therefore not possible to confirm how the Assembly manages risk and inherent weaknesses in internal control.

2. IT Internal Control Environment

The County Assembly did not have Information Communication Technology, strategic plan, tactical plan, IT steering committee and trained staff in the section. The County mainly depended on stand-alone desktop computers without operational guidelines. Much of the Assembly work is done and recorded manually. The payroll is processed by the Executive since the Assembly has not implemented the use of IPPD. There was no adequate provision for virus protection for individual PCs and laptops, maintenance schedule or plan for the hardware and backup plan to ensure the information security and protection of backup files from the Desktops and Laptops in case of disaster.

3. Cash Management

The County Assembly operates a bank account at Co-operative Bank, Homa-Bay Branch. However the cash book was not updated regularly and reconciled with bank statements.

4. Ward Offices Operation Expenses

The MCAs received Imprests of Kshs.50,000 each every month for ward Office expenses totalling to Kshs.24,000,000 in the year under consideration. There were no records maintained at the Ward offices to show how the money was utilized.

5. Rent Payment for Ward Offices

The Forty (40) MCAs received Imprests of Kshs.20,000 each every month to pay rent for the ward offices all totalling to Kshs.9,600,000 in the year under consideration. There was no confirmation that the offices are really leased as there were no lease agreements. The imprests for the year had not been accounted for as at 30 June 2014.

6. Unaccounted for Imprests for Transport Allowance

During the year under review, Members of the County Assembly were given imprest to cater for their transport allowances totalling to Kshs. 4,285,000. The same had not been accounted for as at 30 June 2014.

7. Mileage Allowance

All the Members of the County Assembly were paid a maximum monthly mileage allowance of Kshs.39,528 each with effect from January 2014 irrespective of the distance from their homes to the Assembly contrary to SRC circular Ref No SRC/TS/CGOVT/3/16 dated 15 November 2013 which provides that each member be paid mileage allowance at standard rate of Kshs.109.80 per km up to a maximum of 45 kilometers return. This expenditure clearly appears to be exaggerated since members of the County Assembly from Homabay, Ndhiwa and Rangwe constituencies are far below the 45 kilometers radius. Also the Members of County Assembly were paid claims of Kshs.381,194.40 for the period between December 6 2013 and February 10 2014 when the Assembly was on recess.

8. Withholding Tax Not Deducted From Contractors

The County Assembly during the year under review contracted two different Contractors to undertake construction and refurbishment of buildings and paid them a total of Kshs.38,045,657. However, when payment was made, the 3% withholding tax of Kshs.1,141,273.10 was not deducted and remitted to Kenya Revenue Authority.

9. Unaccounted For Provision Sum and Contingency

Included in the Bill of Quantities for the refurbishment of County Assembly Hall is a provisional sum of Kshs.1,000,000 for electrical works, Kshs.2,000,000 for contingencies and Kshs.300,000 for project management. Physical verification of the project revealed that no electrification works has been done and hence funds set aside for electrification were paid for works not done. The amounts allocated for contingencies and project management were paid to the contractor without any extra instruction to him.

10. Unauthorized Reallocation of Funds

The County Assembly re-allocated funds totalling to Kshs.2,335,700 from fuel, oil and lubricants to purchase an automated standby generator. The generator was supposed to have been purchased under General Equipment. Further, the County Assembly utilized Kshs.11,699,372 allocated for fuel, oil and lubricants to pay suppliers and contractors without seeking approval for supplementary estimates. The expenditures

were incurred after the end of 2013/2014 financial year in July hence cut-off procedures were not adhered to.

11.0 Non-Current Assets

11.1 Purchase of Furniture by MCAs

The MCAs were issued with Imprests of Kshs.200,000 each, all totalling to Kshs.8 million to purchase furniture for the Ward Offices. The MCAs purchased furniture from various Supermarkets; however the procurement regulations were not followed. Further, there was no evidence produced to confirm that the furniture have been taken on charge and recorded in the Assets Register.

11.2 Procurement of Furniture and Equipment

The Assembly procured Furniture and Equipment worth Kshs. 2,674,300 through quotations instead of open tender in accordance with the Public Procurement and Disposal Act.

12. Payment of Mobilization Fund to MCA's

During the 4 Quarter of the year under review, the (40) elected Members of County Assembly were each paid Kshs.100,000 all totalling to Ksh.4,000,000 through their Bank Accounts in respect of mobilization fund for citizen participation of ward offices site. However, the payment vouchers were only supported with list of names of Members of County Assembly. Further the authority from Salaries and Remuneration Commission in form of Circulars to pay the fund was not produced for audit review. Consequently, the propriety of the payment could not be determined.

13. Double Claim on Travelling and Accommodation

The travelling and accommodation claims of Kshs.1,389,000 by the members of the County Assembly did not reflect the correct position since the claimants indicated that they were in Mombasa from 18 to 24 March 2014 while at the same time they were attending County Assembly Forum in Homa Bay at ACK Guest house for staff interviews.



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

27 May 2015

DETAILED REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL OPERATIONS OF HOMA BAY COUNTY ASSEMBLY FOR THE PERIOD 1 JULY 2013 TO 30 JUNE 2014

DETAILED FINDINGS

1. Lack of Internal Audit Function and Audit Committee

The County Assembly does not have an Internal Audit function and audit committee in place as per the requirement of Section 155 (5) of Public Finance Management Act, 2012. It was therefore not possible to confirm how the Assembly manages risk and inherent weaknesses in internal control.

Recommendation

The management should establish both the internal audit function and an Audit Committee to carry out oversight functions of the County Government Assembly.

2. IT Internal Control Environment

The County Assembly does not have Information Communication Technology, strategic plan, tactical plan, IT steering committee and trained staff in the section. The County mainly depended on standalone desktop computers without operational guidelines. Much of the Assembly work is manually done and records are maintained manually. The payroll is processed by the Executive since the Assembly had not implemented the use of IPPD. There was no adequate provision for virus protection for individual PCs and laptops, maintenance schedule or plan for the hardware and Backup plan to ensure the information security and protection of backup files from the Desktops and Laptops in case of disaster.

In the circumstance, it was evident that the internal control environment was weak and the County was exposed to risk of manipulation and loss of data Current Assets

3. Cash Management

The County Assembly operates a bank account at Co-operative Bank, Homa Bay Branch which has not been reconciled as required.

The County Assembly is also required to maintain and update a two column cashbook on a daily basis, in order to ascertain the cash position of the assembly at the close of each working day. However, the cash book in use was updated after the audit and transactions in it were not serially recorded.

4. Ward Offices Operation Expenses

The MCAs received Imprests of Kshs.50,000 each every month for ward Office expenses totalling to Kshs.24,000,000 in the year under consideration. There were no records maintained at the Ward offices to show how the office operation expenses were utilized. The petty cashbooks were not maintained and it was difficult to establish how the amount given to the MCAs was utilized. Subsequently, the accountability of Kshs.24,000,000 given to the MCAs for office operation could not be established.

Recommendation

All imprests should be accounted for or be recovered from the respective MCAs.

5. Rent Payment for Ward Offices

The Forty (40) MCAs received Imprests of Kshs.20,000 each every month to pay rent for the ward offices all totalling to Kshs.9,600,000 in the year under consideration. The procurement procedures were not followed in the leasing of the offices. The MCAs made arrangements with the owners without involving the procurement department and the Tender Committee of the County Assembly. The rent was paid to the landlord by the MCAs with some making agreements as individuals instead of the County Assembly. Subsequently, there was no lease agreement made between the landlords and the County Assembly as required.

Recommendation

The County Assembly should develop a criteria for processing and paying rent directly to the landlords. The MCAs should be called upon to account for the imprests.

The County Assembly should follow due procurement process in identifying and securing the rental spaces.

A rental or lease agreement should be signed between the Landlord and the County Assembly and not the individual MCAs.

Valuation guidelines from the Ministry of Lands should be applied before the signing of the rent agreement.

6. Unaccounted for Imprests for Transport Allowance

During the year under review, Members of the County Assembly were paid transport allowances totalling to Kshs. 4,285,000. The same had not been accounted for as at 30 June 2014.

In the circumstance the accountability of the transport allowance of Kshs.4,285,000 could not be established.

Recommendation

All persons with outstanding imprests should account for the same or recovery be made from their salary.

7. Mileage Allowance

All the Members of the County Assembly were paid a maximum monthly mileage allowance of Kshs.39,528 each with effect from January 2014 irrespective of the distance from their homes to the Assembly contrary to SRC circular Ref No SRC/TS/CGOVT/3/16 dated 15 November 2013 which provides that each member be paid mileage allowance at standard rate of Kshs.109.80 per km up to a maximum of 45 kilometers return. This expenditure clearly appears to be exaggerated since members of the County Assembly from Homabay, Ndhiwa and Rangwe constituencies are far below the 45 kilometers radius. Also the Members of County Assembly were paid claim of Kshs.381,194.40 for the period between December 6th 2013 and February 10th 2014 when the Assembly was on recess.

Recommendation

The Members of the County Assembly should be paid according to actual kilometers

The payments made to the Members of County Assembly while on recess to be recovered.

8. Withholding Tax Not Deducted From Contractors

The County Assembly during the year under review contracted two different Contractors to undertake construction and refurbishment of buildings and paid them a total of Kshs.38,045,657. However, when payment was made, the 3% withholding tax of Kshs.1,141,273.10 was not deducted and remitted to Kenya Revenue Authority.

Recommendation

The 3% withholding tax should be deducted from the 10% retention held by the Assembly.

9. Unaccounted For Provision Sum and Contingency

Included in the Bill of Quantities for the refurbishment of County Assembly Hall is a provisional sum of Kshs.1,000,000 for electrical works, Kshs.2,000,000 for contingencies and Kshs.300,000 for project Management. Physical verification of the project revealed that no electrification works has been done and hence funds set aside for electrification were paid for services not rendered. The amounts allocated for contingencies and project management were paid to the contractor without any instruction to him.

Recommendation

The provisional sum should be accounted for or the same be deducted from the contractors retention.

10. Unauthorized Reallocation of Funds

The County Assembly re-allocated funds totalling to Kshs.2,335,700 from fuel, oil and lubricants to purchase an automated standby Generator. The Generator was supposed to have been purchased under General Equipment.

Further, the County Assembly utilized Kshs.11,699,372 allocated for fuel, oil and lubricants to pay suppliers and contractors without seeking approval of supplementary estimates as required. The expenditures were incurred after the end of 2013/2014 financial year in July hence cut-off procedures were not adhered to.

Recommendation

All reallocations of funds between votes should be approved as required, in accordance with the Public Finance Management Act, 2012.

11.0 Non Current Assets

11.1 Purchase of Furniture by MCAs

The MCAs were given Imprests of Kshs.200,000 each, to purchase furniture for the Ward Offices. The MCAs purchased furniture from various Supermarkets without following the required procurement procedures. Subsequently, Kshs. 8,000,000 given to the MCAs for the purchase of furniture was not accounted for and the procurement procedures were not followed. Further, there was no evidence produced to confirm that the furniture have been taken on charge and recorded in the Assets Register. The MCAs took upon themselves to purchase the furniture instead of involving the procurement section and Tender Committee as required.

In the circumstances, the accountability of Kshs.8,000,000 given to MCAs for the purchase of furniture could not be confirmed.

Recommendation

The procurement procedures and regulations should be followed in the purchases made by the County assembly in accordance with the Public Procurement and Disposal Act, 2005 and the Regulations. All outstanding imprests should be accounted for or recovered from the respective MCAs.

11.2 Procurement of Furniture and Equipment

The Assembly procured furniture and equipment worth Kshs.2,674,300 from Weenslne Ventures in which the value of the furniture and equipment was above the quotations threshold of class A, of Kshs.2,000,000 however quotations were used in awarding the contract to supply furniture instead of using tender. Further, the supplier of chairs and tables valued at Kshs.2,147,500 by Harrc Isoft Systems was not among the firms that quoted and there were no support documents to indicate how the firm was sourced.

Subsequently, the sourcing for the firms to supply furniture of Kshs.4,821,800 did not follow the required procurement procedures.

Recommendation

- (i) The procurement procedures and regulations should be followed in the purchases made for the County Assembly in accordance with the Public Procurement and Disposal Act, 2005 and the Regulations.
- (ii) All purchased assets should be verified and labelled and the records maintained by the County Assembly with all details of the assets in accordance with the requirements of Fixed Assets Register.

12. Payment of Mobilization Fund to MCA's

During the 4 Quarter of the year under review, the (40) elected Members of County Assembly were each paid Ksh.100,000 all totalling to Ksh.4,000,000 through their Bank Accounts in respect of mobilization fund for citizen participation of ward offices site. However, the payment vouchers were only supported with list of names of Members of County Assembly. Further the authority from Salaries and Remuneration Commission in form of Circulars to pay the fund was not produced for audit review. Consequently, the propriety of the payment could not be determined.

Recommendation

Recoveries should be made from the Members of the County Assembly.

13. Double Claim on Travelling and Accommodation

The travelling and accommodation claims of Kshs.1,389,000 did not reflect the correct position since the claimants indicated that they were in Mombasa from 18th to 24th March 2014 while at the same time they were attending County Assembly Forum in Homa Bay at ACK Guest house for staff interviews. The Members of the County Assembly could not have been in two places at the same time. Consequently, the claims paid do not appear justified and properly payable to the MCAs.

Recommendation

The recipient of the said allowances should account for all the money paid to them as transport allowance or the Management should take appropriate action to recover from their salaries.



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27 May 2015