

REPUBLIC OF KENYA



REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL OPERATIONS OF
THE COUNTY EXECUTIVE OF KISII**

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

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

EXECUTIVE SUMMARY

1.1 Background Information

Kisii County is one of the forty seven counties in Kenya which was created by the Constitution of Kenya 2010 in line with the spelt out functions. Its headquarter is Kisii Town. It shares common borders with Nyamira County to the North East, Narok County to the South and Homabay and Migori Counties to the West. The County covers a total area of 1,317.5 Km² and is divided into nine (9) Sub-Counties namely: Kitutu Chache North, Kitutu Chache South, Nyaribari Masaba, Nyaribari Chache, Bomachoge Borabu, Bomachoge Chache, Bobasi, South Mogirango and Bonchari.

The County Government is divided into the County Executive and The County Assembly. The County Executive is divided into nine (9) sectors namely Culture, Education, Agriculture, Environment & Natural Resources, Public Works, Physical Planning & Development, Health, Trade and Finance Planning each headed by County Executive Committee Member.

1.2 Introduction

The audit for the period 1 July 2013 to 30 June 2014 was undertaken to assess the management and financial operations as well as adequacy and reliability of the systems of management and financial controls instituted by the management of the County Government in running its affairs in as far as utilization of public funds is concerned.

1.2 Terms of Reference

The Office of the Auditor-General is an independent office mandated by the Constitution of Kenya, 2010 under Article 229 to audit the accounts of the National and County Government. In this regard, the office planned an audit of the financial operations of Kisii County for the period 1 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 the Public Finance Management Act, 2012 in the utilization of public funds.
- Assessment of 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.
- Ascertain that all necessary supporting documents, records, and accounts have been kept in respect of all transactions.

1.4 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.
- Examinations of payment vouchers, cashbooks, vote books, bank statement, 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.

1.5 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. Our responsibility is to report on the weaknesses that were identified in the course of the audit.

2. KEY AUDIT FINDINGS

2.1 CURRENT ASSETS

2.1.1 Imprest Management

- i. An imprest of Kshs.2,892,000 was issued to an officer to cater for accommodation and travel for the County officers' retreat held in Mombasa from 22 September to 4 October 2013. The surrender did not have relevant documentation namely; letters of invitation, details of transport used, contract agreement with the Hotel and attendance register.
- ii. Another officer was paid Kshs.232,000 being reimbursement allowances to eight (8) officers travelling to Nairobi for uploading of budget in IFMIS system. However on surrender, no relevant documents for the safari were attached to the payment voucher. The rationale for sending eight (8) officers to upload the budget in IFMIS was also not explained.
- iii. During the period under review, the County Government issued temporary imprest totalling Kshs.32,741,086 to staff for various journeys and purchase of goods and services but had not accounted for as at the time of audit February 2015.

2.1.2 Operations of Several Bank Accounts

At the time of the audit the County government during the year opened sixty four (64) bank accounts both at head quarter and Sub-counties. A list of officers with authority to incur expenditure and operating of the bank accounts were not made available. Further, cash books, bank statements and bank reconciliation statements were not availed for audit verification. Management did not explain the necessity of operating so many bank accounts. Controls put in place over the operations of those bank accounts were also not explained. Consequently, control over bank operations could not be verified.

2.1.3 Cash Transfer to Ministry of Health Headquarter

The County Executive transferred Kshs.316,131,142 to Ministry of Health headquarter being reimbursement of salary of devolved staff for July, August, September, and October 2013. No correspondence authorizing the transfer, reconciliation between the County and Ministry records and a miscellaneous receipt issued by the Ministry on receipt of the money were availed for audit verification.

2.2 NON-CURRENT ASSETS

2.2.1 Procurement of Goods, Services and Works

In the period under review, the Finance sector procured goods, services and works totaling Kshs.89,236,629 and the following anomalies were noted;

- i. The County through use of quotation as opposed to open tender, awarded contracts totalling Kshs.41,396,879 to three (3) Contractors in respect of compilation of fixed assets appraisal & valuation, renovation and networking of County Offices.
- ii. Contracts totalling Kshs.10,143,301 for repair & renovation, partitioning, installation of security lighting and Networking of County offices were awarded to six (6) suppliers who were not prequalified.
- iii. The County awarded contracts totalling Kshs.37,696,449 to five (5) suppliers through split procurement methods for the supply of curtains & shears and Office Furniture.

2.2.2 Unbudgeted for Procurement of Graders and Drum Rollers

During the period under review, the County Works and Transport Sector incurred expenditure totalling Kshs.66,096,000 on procurement of two (2) graders and two (2) drum rollers from a supplier. It was observed that the expenditure had not been planned and budgeted for in the year 2013/2014 and no authority for budget revision from the County Assembly was made available for audit verification. Work plan and work tickets for operations were not made available for audit verification.

2.2.3 Procurement of Furniture

During the period under review, a Company was paid Ksh.4,410,000 to supply furniture to the County Health Service Sector. The delivery notes attached on the payment vouchers were not signed and the Inspection and Acceptance Committee certificates were signed by one member out of three (3), members. Under the circumstances, it was not possible to confirm that the furniture were received by the County.

2.2.4 Payments before Tender Award

Physical Planning and Development Department paid three (3) contractors a total sum of Kshs.5,795,000 on 28 March 2014 for the latrine renovation and garbage collection. However, tender award was done on 4 April 2014. Consequently the competitiveness of the tender could not be confirmed.

2.2.5 Inflated prices for Fire Proof Cabinets

The County Physical Planning and Development department paid a Supplier in the month of October 2013 Kshs.1,325,000 for supply of five (5) Fire Proof Cabinets each costing Kshs.265,000. However the Public Procurement Oversight Authority recommended prices for October 2013 was Kshs.157,357 per piece. The County Government would have saved Kshs.538,215 had they used the recommended price.

2.2.6 Payment for Installation and Supply of Electricity

The Environment sector paid a contractor Kshs.525,470 for the design, construction and installation of Electricity (Transformer) at Marani Market. However, management did not disclose how the company was identified and payment determined. Kenya Power and Lighting Company which would usually supply such services was not contracted. The payment voucher was also not authorized for processing. It's therefore not possible to ascertain the propriety of the expenditure.

2.2.7 Updating Fixed Assets Register and Valuation of Assets

The County Government awarded contracts to two consultants to undertake valuation of County assets at a contract sum Kshs.8,500,000 and paid Kshs.1,500,000 for preparation and updating assets register however, the following omissions were noted:

- i. The assets register was not fully updated as it lacked entries such as the date of registration, location, suppliers' names, condition and cost price.
- ii. Title deeds for Land parcels with total value of Kshs.2,075,300,000 listed in the assets register were not availed for audit verification.
- iii. The fixed assets register reflects ninety four (94) undeveloped parcels of land owned by the County which may be prone to encroachment.

Under the circumstance, the fixed assets register does not reflect the accurate position of the County assets.

2.3 EXPENDITURE REVIEW

2.3.1 Procurements of Insurance Services

During the period under review, the Finance sector paid Kshs.49, 467,739 to an Insurance Broker as premium against insurance taken with two (2) Insurance Companies. The Broker was awarded contract through Request for Quotations (RFQ) instead of open tendering as stipulated by Public Procurement and Disposal Act, 2005 and Regulations 2006. Further, the premiums were paid directly to the broker

instead of the underwriters contrary to regulations by the Insurance Regulatory Authority of Kenya.

2.3.2 Leasing of Ambulance vehicles

The County Government entered into a one year operating lease agreement with a Non - Governmental Organization (NGO) on 22 October 2013 for the lease of nine (9) ambulances at a monthly cost of Kshs.600,000 per ambulance (Kshs.64,800,000 per year). However, during the tendering process, the per diem for the (NGO) staff and fuel were never disclosed but only included in the contract document. Total Payments made for the six months totaled Kshs.38,356,506 including per diem for the (NGO) staff and fuel expenses. Records on how the county monitors the movement of these ambulances were not availed.

The County Government should consider it prudent to acquire new ambulances for operation in order to receive value for money.

Evaluation on whether to buy or lease was not carried out.

2.3.3 Payment to the Council of Governors

The County Government in the month of October 2013 paid Council of Governors Kshs.300,000 to support the work of the Council. The Council of Governors as created under the Inter-Governmental Relations Act 2012 Section 19 should be financed through the annual estimates of the Revenue and Expenditure of the National Government as per Section 37 of the Act. The propriety of the expenditure incurred therefore could not be confirmed.

2.3.4 Honoraria, Overtime and Lunch Allowances

During the year under review, the Finance Sector paid honoraria allowances totalling Kshs.1,035,500 to Tender Committee Members and procurement department officers involved in processing tender documents .Further, Kshs.2,236,500 was paid as overtime and lunch allowances to officers as compensation for working beyond normal hours. However, management did not disclose the authority/circular for the payment of the allowances taking into consideration that the officers should have carried out the duties during their normal working hours.

2.3.5 Payment of Transport Allowances

The County Government paid transport allowances of Kshs.20,000 per month to each ten (10) County Executive Committee (CEC) members in the month of January and February 2014, despite the CECs having official transport allocated to them. Transport allowance totalling Kshs.400,000 was spent contrary to the Salaries and Remuneration Commission circular ref. SRC/TS/CGOVT/3/61 dated 20 August 2013.

2.4 REVENUE RECORDS

2.4.1 Revenue Collection and Banking

Analysis of the revenue collection and banking for the period under review revealed the following:-

- i. Revenue collection analysis for nine (9) sub-counties availed for audit review revealed unbanked revenue totalling Kshs.3,299,610 contrary to the Public Finance Management Act, 2012 and the existing Financial Regulations;
- ii. The county entered into a Private Partnership with a bank upon which the bank will collect parking fee, motorbike licensing, bus and matatu parking fees. The terms and condition of agreement and the revenue collected were not made available for audit verification;
- iii. Kisii Level 5 Hospital collected revenue totalling Kshs.1,835,591 between July 2013 and February 2014. The revenue was not banked into the County Revenue Account, but spent directly contrary to the requirements of Public Finance Management Act, 2012;
- iv. The balancing of all revenue cash books were done in pencil and not in permanent ink.
- v. Handing over report of the revenue balance that was inherited and the unused receipt books handed over as at 4 March 2013 when the County came to existence were not availed for audit verification. Consequently, the accountability of the revenue collected could not confirmed.
- vi. The County revenue collection software known as C-IFMIS or LAIFOM is yet to be put into use and no explanation was provided.

Under the circumstances, the accuracy of revenue collection could not be confirmed.

2.5 HUMAN RESOURCE MANAGEMENT AND PAYROLL

2.5.1 Payment of Salary Without Deducting P.A.Y.E

The Hospital paid salary to eight (8) employees who were hired on contract without recovering Pay as You Earn(P.A.Y.E) totalling to Kshs.144,082 contrary to Income Tax Act Cap 470. The County Government may incur penalties and interest for non-recovery and remittance of income taxes.

2.5.2 Payment of Tuition Fees for Medical Staff

During the year, Kisii Level 5 Hospital paid Kshs.595,600 fees for seven (7) officers who were pursuing various courses at Kenya Medical Training College (KMTC) and Kenyatta National Hospital through cost sharing funds. However, the authority for the payment was not availed for audit verification.

2.6 COUNTY INFORMATION TECHNOLOGY ENVIRONMENT

2.6.1 IFMIS, G-PAY and LAIFOMS

A review of the IFMIS, G-PAY and IPPD systems revealed that the systems are not interfaced and the integrity and accuracy of information uploaded from one system to another could not be ascertained.

All the relevant data had not been captured in the system and information update were not accurate. There are cases of an officer operating both IFMIS and G-Pay at the same time resulting to lack of internal checks.

A review of the accounts set up and access rights granted to staff within IFMIS revealed the following weakness:

- i. There are no approved standard authorization cards used in granting access to the system.
- ii. Users have been granted conflicting roles where certain users can perform a transaction from initiation, processing, reversal and reconciliation.
- iii. The logical access controls are weak given that the users are not prompted to change the password upon the first log on and also all passwords are being shared by the system operators through access to individual user set-up account.
- iv. IFMIS accounting system had not maintained system logs for all the transactions processed within the system since as the operators are sharing passwords it defeat the logic of having system logs.

2.6.2 Service Level Agreements with System Vendors

The County does not have Service Level Agreement (SLAs) with vendor of IFMIS Accounting package, IPPD payroll package and C-LAIFOM billing package to explain the expectation and the responsibilities of the systems' vendors for maintenance and upgrading of the systems.

2.6.3 Server Room

Inspection of the server room revealed the following weaknesses:

- i. The physical access controls are not adequate as the door to the server room is not under lock and key. It is also accessible to unauthorized persons.
- ii. The space for the Server is inadequate as it also houses the System Administrator, and G-Pay server is housed under Deputy Director of finance office. IPPD server is housed under payroll supervisor office.
- iii. The room is not air conditioned so as to regulate the temperatures given that servers run for long hours thus they may heat up.
- iv. The servers are placed on the table thus exposed to dust and water.
- v. There are no smoke detectors and fire extinguishers within the server room
- vi. The County Government has dedicated one of their computers to be the server. The same computer is also used for other transactions.
- vii. The user set up is such that two users have one password.

2.7 PRIOR YEAR OUTSTANDING ISSUES

2.7.1 Handing Over of Assets and Liabilities of Defunct Local Authorities

The handing over of the assets and liabilities of the defunct local authorities had not taken place at the time of audit a year after the County Government came into existence.



Edward R.O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

21 April 2015

DETAILED REPORT OF THE AUDITOR-GENERAL ON THE MANAGEMENT AND FINANCIAL OPERATIONS OF KISII COUNTY EXECUTIVE FOR THE PERIOD 1 JULY 2013 TO 31 JUNE 2014

3. DETAILED AUDIT FINDINGS

3.1 CURRENT ASSETS

3.1.1 Imprest Management

- i. The County Executive issued an imprest of Kshs.2,892,000 to John Nyondanyi to cater for accommodation and travel for Governor, County Executive Committee members, County Public Service Board members, Chief Officers, key officers, secretaries, 7 secretariat members, drivers and security officers on a Mombasa joint retreat held in Mombasa Beach hotel from 22 September to 4 October 2013. The surrender did not have relevant documentation namely; letters of invitation, mode of transport used, contract agreement with Mombasa Beach Hotel and attendance register.
- ii. Caleb Anyona was paid Kshs.232,000 through voucher no.34503969 dated 30.1.14 being reimbursement allowances to 8 officers travelling to Nairobi for uploading of budget in IFMIS system. No supporting documents for the safari were made available.
- iii. During the period under review, the County Government issued temporary imprest totalling Kshs.32,741,086 to staff for various journeys and purchase of goods and services but the same had not accounted for as at the time of audit February 2015.

Recommendation

Imprest surrenders should be properly supported by necessary documents as proof that it was used for the intended purpose, failure to which recovery in full should be made.

3.1.2 Operations of Several Bank Accounts

The County Government during the year under review opened sixty four (64) bank accounts both at head quarter and sub-counties. A list of officers with authority to incur expenditure and operating of the bank accounts were not made available. Further, the cash books, bank statements and bank reconciliation statements were not availed for audit verification. Management did not explain the necessity of operating so many bank accounts.

Recommendation

The County management should take appropriate action to reduce the number of bank accounts and run some stations by use of standing imprests.

3.1.3 Cash Transfer to Ministry of Health Headquarter

The County Executive transferred Kshs.316,131,142 to Ministry of Health headquarter being reimbursement being salary of devolved staff for July, August, September, and October 2013. No correspondence authorizing the transfer, statement of reimbursement and a miscellaneous receipt for revenue generated by the Ministry were availed for audit verification.

Recommendation

The parent ministry should reconcile with the County to determine the actual balances. Correspondences on the transfer should be made available for audit verification.

3.2 NON-CURRENT ASSETS

3.2.1 Procurement of Goods, Services and Works

In the period under review, the Finance sector procured goods, services and works totaling Kshs.9,236,629 and the following anomalies were noted;

- i. The County through quotation as opposed to open tender, awarded contracts totalling Kshs.41,396,879 to three (3) Contractors in respect of compilation of fixed assets appraisal & valuation, renovation and networking of County Offices.
- ii. Contracts totaling Kshs.10,143,301 for repair & renovation, partitioning, installation of security lighting and Networking of County offices were awarded to six (6) suppliers who were not prequalified.
- iii. The County awarded contracts totalling Kshs.37,696,449 to five (5) suppliers through split procurement methods for the supply of curtains & shears and Office Furniture.

Recommendations

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

3.2.2 Procurement of Graders and Drum Rollers

During the period under review, the County Works and Transport Sector incurred expenditure totalling Kshs.66, 096,000 on procurement of two (2) graders and two (2) drum rollers from a vendor. It was observed that the expenditure had not been planned and budgeted for in the year 2013/2014 and no authority for budget revision from the County Assembly was made available for audit verification. Work plan and work tickets for operations were not made available for audit verification.

Recommendations

The County management should in future prepare a supplementary estimate and seek authority from the County Assembly for such revision. Work plan and work tickets for operations should be maintained for accountability.

3.2.3 Procurement of Furniture

During the period under review, a vendor was paid Kshs.4,410,000 to supply furniture to the County Health Service Sector. The delivery notes attached on the payment vouchers were not signed and the Inspection and Acceptance Committee certificates were signed by one member out of three (3), members. Under the circumstances, it was not possible to confirm that the sector received value for money.

Recommendation

All future procurement of goods should be signed fully by all the members of inspection and acceptance committee for accountability purposes as per Procurement Regulations, 2006 Section 17(2).

3.2.4 Payments before Tender Award

Physical Planning and Development paid three (3) contractors a total of Kshs.5, 795,000 on 28 March 2014 for the latrine renovation and cabbage collection. However, tender award was done on 4 April 2014 as shown below;

| Date Paid | Transacti on no. | Line description | Amount Paid | Date tender awarded |
|------------------|-----------------------------|---|------------------------|--------------------------------|
| 28/3/2014 | 34508125 | Latrine renovation at Keroka Market | 1,950,000 | 4/4/2014 |
| 28/3/2014 | 34508126 | Latrine renovation at Ogembo Market | 1,890,000 | 4/4/2014 |
| 28/3/2014 | 34508127 | Garbage collection Transportation and compacting | 1,955,000 | 4/4/2014 |
| | | | 5,795,000 | |

Recommendation

Procurement of goods and services should be done in accordance with the Public Procurement and Disposal Act, 2005 and related 2006 Regulations.

3.2.5 Inflated prices for Fire Proof Cabinets

The County Physical Planning and Development paid a Supplier in the month of October 2013 Kshs.1,325,000 for supply of five (5) Fire Proof Cabinets each costing kshs.265,000 . However the Public Procurement Oversight Authority recommended prices for October 2013 was Kshs.157,357 per piece resulting to total overpayment of Kshs.538, 215

Recommendation

The standard goods with known market prices should be procured at the prevailing market price index as per Public Procurement Oversight Authority (PPOA) Guidelines.

3.2.6 Payment for Installation and Supply of Electricity

The Environment sector paid Fast-food Holding Ltd Kshs.525,470 for the design, construction and installation of Electricity (Transformer) at Marani Market. However, management did not disclose how the company was identified. Further the payment voucher was not authorized, and the payment was made to the contractor instead of Kenya Power and Lighting Company which would usually supply such services. It was therefore not possible to ascertain the propriety of the expenditure.

Recommendation

The Management should ensure proper accountability of County public funds.

3.2.7 Fixed Assets Register and Valuation of Assets

The County Government awarded contract in respect of valuation of County Asset at a contract sum Kshs.8,500,000. Included in the valuation report is 1,115 acres of grazing land valued at Kshs.501,750,000 which was physically verified to have been encroached.

Further, a vendor was paid Kshs.1,500,000 for preparation and updating asset register however the following omissions were noted:

- i. The assets register was not fully updated as it lacked entries such as the date of registration, location, supplier, condition and cost price.

- ii. Title deeds for Land parcels with total value of Kshs.2,075,300,000 listed in the assets register were not availed for audit verification.
- iii. The fixed asset register reflects ninety four (94) undeveloped parcel of land owned by County which may be prone to encroachment.

Under the circumstance, the fixed assets register does not reflect the accurate position of the County assets.

Recommendations

The Management should update its asset register by reflecting all the necessary details of the assets and also secure title deeds for the County lands.

3.3 EXPENDITURE REVIEW

3.3.1 Procurements of Insurance Services

During the period under review, the Finance sector paid Kshs.49, 467,739 to a Broker as premium against insurance taken with two (2) Insurance Companies. The Broker was awarded contract through Request for Quotations (RFQ) instead of open tendering as stipulated by Public Procurement and Disposal Act 2005 and Regulations, 2006. Further, the premiums were paid directly to the broker instead of the Insurance Companies contrary to regulations by the Insurance Regulatory Authority of Kenya.

Recommendation

The provisions of the Public Procurement and Disposal Act, 2005 and 2006 should be followed as stipulated.

3.3.2 Leasing of Ambulance Vehicles

The County Government entered into one year an operating lease agreement with Kenya Red Cross Society on 22 October 2013 for the lease of nine (9) ambulances at a monthly cost of Kshs.600,000 per ambulance (Kshs.64,800,000 per year). However, during the tendering process, the per diem for the (NGO) staff and fuel were never disclosed but only included in the contract document. Total payments made for the six months totalled Kshs.38,356,506 including per diem for the (NGO) staff and fuel expenses. Records on how the County monitors the movement of these ambulances were not availed. A review of purchases of ambulance vehicles from other Counties revealed that it is prudent and economical to acquire new ambulances for operation as opposed to leasing. Under the circumstances the propriety of the expenditure could not be ascertained.

Recommendations

The County should ensure that there is due diligence in carrying out all contracts and also ensure compliance with Public Procurement and Disposal Act, 2005 and related Regulations of 2006. The County Government should consider it prudent to acquire new ambulances for operation in order to receive value for money.

3.3.3 Payment to the Council of Governors

The County Government in the month of October 2013 paid Council of Governors Kshs.300,000 to support the work of the Council. The Council of Governors as created under the Inter- Governmental Relations Act 2012 Section 19 should be financed through the annual estimates of the Revenue and Expenditure of the National Government as per Section 37 of the Act. The propriety of the expenditure incurred, therefore, could not be confirmed.

Recommendation

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

3.3.4 Honoraria, Overtime and Lunch Allowances

During the year under review, the Finance Sector paid honoraria allowances totalling Kshs.1,035,500 to tender committee members and procurement unit officers involved in tendering procedure .Further, Kshs.2,236,500 was paid as overtime and lunch allowances to officers as compensation for working beyond normal hours. However management did not disclose the authority/circular for the payment of the allowances taking into consideration that the officers should have carried out their normal duties during the normal working hours.

Recommendations

- i.** The management should determine the rate of honoraria payable to the tender committee members and the overtime allowance policy.
- ii.** Meal allowances should be paid only when officers work outside their working stations.
- iii.** Full recovery should be made on failure to support payment of the above allowances and honoraria.

3.3.5 Payment of Transport Allowances

The County Government paid transport allowances of Kshs.20,000 per month to each ten (10) County Executive Committee (CEC) members in the month of January and February 2014, despite the CECs having official transport allocated to them. Transport allowance totalling Kshs.400,000 was paid contrary to the Salaries and Remuneration Commissions circular ref. SRC/TS/CGOVT/3/61 dated 20 August 2013.

Recommendation

The County should recover Kshs.400,000 being transport allowances paid to CEC for the period they were allocated official transport.

3.4 REVENUE RECORDS

3.4.1 Revenue Collection and Banking

Analysis of revenue collection and banking in the period under review revealed the following:

- i.** The nine (9) Sub-County revenue collection analysis availed had unbanked revenue totaling Kshs.3,299,610 contrary to the Financial Regulations;
- ii.** The County entered into a Private partnership with a bank upon which the bank will collect parking fee, motorbike licensing, bus and matatu parking fees. The terms and condition of agreement and the revenue collected were not made available for audit verification;
- iii.** Kisii Level 5 Hospital collected revenue totalling Kshs.1,835,591 between July 2013 and February 2014. The revenue was not banked into the County Revenue Account, but spent directly contrary to the requirement of Public Finance Management Act 2012;
- iv.** The balancing of all revenue cash books were done in pencil and not in permanent ink.
- v.** Handing over report of the revenue balance that was inherited and the unused receipt books handed over as at 4 March 2013 when the County came to existence were not availed for audit verification.
- vi.** The County revenue collection software known as C-IFMIS or LAIFOM is yet to be put into use and no explanation was provided.

Under the circumstances, the accuracy of revenue collection could not be confirmed.

Recommendations

- (i) The County management should enhance the revenue collection system and also implement the C-IFMIS for efficient and effective revenue collection.
- (ii) All the revenue collected should be banked in the County Revenue Fund Account.

3.5 HUMAN RESOURCE MANAGEMENT AND PAYROLL

3.5.1 Payment of salary without deducting P.A.Y.E

The County paid salary to eight (8) employees who were hired on contract without recovering Pay as You Earn (P.A.Y.E) totalling to Kshs.144,082 contrary to Income Tax Act Cap 470. The County Government may incur penalties and interest for non-recovery and unremitted taxes as per Section 72(d) and Section 94(1) of the Income Tax Act 2012.

Recommendation

The County should recover P.A.Y.E and remit to KRA as per Income Tax Act Cap 470.

3.5.2 Payment of Tuition Fees for Medical Staff

During the year, Kisii Level 5 Hospital paid Kshs.595,600 fees for seven (7) officers who were pursuing various courses at Kenya Medical Training College (KMTC) and Kenyatta National Hospital through cost sharing funds. However, the authority for the payment was not availed for audit verification.

Recommendation

In the absence of any authority, the payments should be taken as advances and recoveries made from the respective officers.

3.6 COUNTY INFORMATION TECHNOLOGY ENVIRONMENT

3.6.1 IFMIS, G-PAY and LAIFOMS

A review of the IFMIS, G-PAY and IPPD systems revealed that the systems are not interfaced and the integrity and accuracy of information uploaded from one system to another could not be ascertained.

All the relevant data had not been captured in the system and information update were not accurate. There are cases of an officer operating both IFMIS and G-Pay at the same time resulting to lack of internal checks.

A review of the accounts set up and access rights granted to staff within IFMIS revealed the following weakness:

- i. There are no approved standard authorization cards used in granting access to the system;
- ii. Users have been granted conflicting roles where certain users can perform a transaction from initiation, processing, reversal and reconciliation;
- iii. The logical access controls are weak given that the users are not prompted to change the password upon the first log on and also all passwords are being shared by the system operators through access to individual user set-up account;
- iv. IFMIS accounting system had not maintained system logs for all the transactions processed within the system since as the operators are sharing passwords it defeat the logic of having system logs.

Recommendations

Management should ensure that the system is configured to maintain all system logs automatically in order to ensure that audit trails are maintained.

The system logs should be regularly reviewed by the system administrator and a report issued to the management.

3.6.2 Service Level Agreements with System Vendors

The County does not have Service Level Agreement (SLAs) with vendor of IFMIS Accounting package, IPPD payroll package and C-LAIFOM billing package to explain the expectation and the responsibilities of the systems' vendors for maintenance and upgrading of the systems.

Recommendation

The management should enter into comprehensive service level agreements with the vendors of the systems for the safety and upgrading of the systems.

3.6.3 Server Room

Inspection of the server room revealed the following weaknesses:

- i. The physical access controls are not adequate as the door to the server room is not under lock and key. It is also accessible to unauthorized persons.
- ii. The space for the server is inadequate as it also houses the System Administrator, and G-Pay server is housed under Deputy Director of Finance office. IPPD server is housed under payroll supervisor office.
- iii. The room is not air conditioned so as to regulate the temperatures given that servers run for long hours thus they may heat up.
- iv. The servers are placed on the table thus exposed to dust and water.
- v. There are no smoke detectors and fire extinguishers within the server room
- vi. The County has dedicated one of their computers to be the server. The same computer is also used for other transactions.
- vii. The user set up is such that two users have one password.

Recommendations

The County should ensure that physical access controls is enhanced at the server room and is not accessible by unauthorized persons.

The County should ensure that environmental controls within the server include storage of servers in racks which are secure and free from dust, installation of air conditioner to regulate temperatures and, installation of smoke detectors to alert the management in case of fire.

3.7 PRIOR YEAR OUTSTANDING ISSUES

3.7.1 Handing Over of Assets and Liabilities of Defunct Local Authorities

The handing over of the assets and liabilities of the defunct local authorities had not taken place at the time of audit of a year after the County Government came into existence.

Recommendation

The county should ensure that the handing over take place for proper accountability of the County assets and liabilities.

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

Edward R.O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

21 April 2015