REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL OPERATIONS OF COUNTY ASSEMBLY OF HOMA BAY

FOR THE PERIOD
1 JULY 2014 TO 30 JUNE 2015

Table of Contents

EXECUTIVE SUMMARY 1
Background Information 1
Introduction 1
Terms of Reference 1
Methodology 2
Scope and Determination of Responsibilities 2
1.0 Budget Performance Analysis 2
2.0 Procurement of Goods and Services 3
2.1 Unaccounted for Fuel 3
2.2 Ward Offices Rent 3
2.3 Ward Offices Operation Expenses 3
3.0 Fixed Assets Register - Failure to maintain updated Assets Register 3
4.0 Unsecured Car & Mortgage Loans 3
5.0 MCAs Travel - Committee Meetings held outside Homa Bay County Assembly Offices 4
6.0 Imprests - Temporary Imprest to MCA's for Accommodation and Transport 4
DETAILED AUDIT FINDINGS 5
1.0 Budget Performance Analysis 5
2.0 Procurement of Goods and Services 5
2.1 Unaccounted for Fuel 5
2.2 Purchase of Fuel by Cash 6
2.3 Ward Offices Rent 6
2.4 Ward Offices Operation Expenses 7
3.0 Fixed Assets Register 7
4.0 Unsecured Car & Mortgage Loans 7
5.0 Committee meetings held outside Homabay County Assembly Offices 8
6.0 Temporary Imprest to MCA's for Accommodation and Transport 8
Appendix III: Committee meetings held outside Homa Bay CA Offices - Kshs.5,540,800 . 12
Appendix IV: Homa Bay County Assembly 2015 Unsurrendered Imprest Kshs.12,168,800 15

REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL OPERATIONS OF HOMA BAY COUNTY ASSEMBLY FOR THE PERIOD 1 JULY 2014 TO 30 JUNE 2015

EXECUTIVE SUMMARY

Background Information

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

Introduction

This financial operations audit covers the period 1 July 2014 to 30 June 2015. It was undertaken to assess the adequacy and reliability of the systems of management and financial control instituted by the management of the County Assembly in running its affairs with emphasis on the utilization of public resources.

Terms of Reference

The Office of the Auditor-General is an independent office mandated by the Constitution under Article 229 to audit the accounts of the National and County Government. In this regard, the office planned a financial operations audit of the County Assembly of Homa Bay for the period 1July 2014 to 30 June 2015 with the following audit objectives.

- Budgetary Performance Analysis
- Analytical Review
- Revenue
- Staff Remuneration/Salaries and Wages
- Procurement of Goods and Services
- Bank and Cash
- Projects
- Fixed Assets
- Mortgage and Car Loans
- Training Costs
- Consultancy Fees
- Bursaries
- Members of County Assembly Travels
- Commitments (Pending Bills)
- Confidential Expenditure
- Imprests
- Legal Fees
- Inherited Debts/Liabilities
- Roads
- IFMIS & E- Procurement

Methodology

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

- Interviews with key officers at the County Assembly offices.
- Review of applicable legislation and regulations.
- Examination of payment vouchers and support documents, cash books, vote books, bank statements, bank slips, miscellaneous 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 evidence that, in all material respects, expenditure incurred is fairly stated and recording is achieved in all financial transactions.

The matters mentioned in this Report are therefore those that were identified through tests considered necessary for the purpose of achieving the audit objectives and it is possible that there might be other matters and/or weaknesses that were not identified.

The formulation and maintenance of effective control measures and compliance with laws and regulations is the responsibility of the management. Our responsibility is to report on the weaknesses and non-compliance with Laws and regulations identified in the course of the audit.

The following sections highlight key audit findings noted during the audit of the financial operations for the year ended 30 June 2015.

Audit Findings

1.0 Budget Performance Analysis

During the year under review, the County Assembly was allocated a total Kshs.862,645,355 out of which Kshs.818,229,512 (95%) was spent on recurrent expenditure and Kshs.44,415,843 (5%) on development as follows:

Item	Budget	Actual	Absorption in %	As % of Total Expenditure
Recurrent	818,229,512	809,848,669	95%	97%
Development	44,415,843	25,981,563	5%	3%
	862,645,355	**835,830,232**		**100%**

Analysis of the budget against actual revealed that the Assembly had overspent by Kshs.6,122,271 on certain budgeted items in the year under review without approval. Further, some budget items where under spent by Kshs.32,937,394 with most budgeted items absorption rate being either nil or not fully utilized. This made the Assembly not to meet its planned service delivery level. The Assembly expenditure has reduced by 13% from Kshs.961,483,673 (2013/2014) to Kshs.835,830,232 (2014/2015).

2.0 Procurement of Goods and Services

2.1 Unaccounted for Fuel

Information available indicates that the County Assembly fuel register was not updated between July 2014 and February 2015, resulting in unaccounted for fuel with a value of Kshs.904,808. Consequently, the validity and accuracy of the amounts of fuel not posted in the work tickets is therefore doubtful. In addition, records available reflected that the County Assembly operates Total petrol station's fuel cards in fueling its vehicles. However, 1,986 litres were purchased in cash during the year under review without being accounted for.

2.2 Ward Offices Rent

Available records reflects that the ward offices rent ranged between Kshs.3,000 to Kshs.20,000 per month. However the minutes of meetings where rents were agreed upon were not availed for audit verification. Consequently it could not be confirmed whether the rents payable were properly determined and approved.

2.3 Ward Offices Operation Expenses

Available information indicates that the accuracy of ward offices operations expenses totaling to Kshs.94,976,000 for the year under review could not be ascertained as proper records were not maintained.

3.0 Fixed Assets Register - Failure to maintain updated Assets Register

The County Assembly did not maintain an accurate and updated fixed assets register for the non-current assets balance of Kshs.93,242,948 as at 30 June 2015.

4.0 Unsecured Car & Mortgage Loans

The Assembly issued car and mortgage loans to Members of the County Assembly totalling Kshs.72,328,000 through Homa Bay Car Loans & Mortgage Scheme Fund.

The following are the observations made:

i. The loans and mortgages board has not been established for purpose of managing the fund.

ii. Financial statements for the fund have not been prepared and submitted to the Auditor-General as required by section 167(3) of Public Finance Management Act, 2012 on annual reporting by Administrators of County public funds. In the absence of the annual financial statements it was not possible to confirm the status of the fund.

iii. Regulations for the administration of the fund had not been formulated by the time of the audit.

iv. The members of the Assembly held unsecured loan balances totaling Kshs.171,756,901 as at 30 June 2015.

5.0 MCAs Travel - Committee Meetings held outside Homa Bay County Assembly Offices

The County Assembly paid a total Kshs.5,540,800 for various committee meetings held outside the County Assembly offices. The minutes for selection committee meeting, bonding sessions and attendance registers were not availed for audit review. In addition, transport costs were paid upfront instead of the same being given as imprests to be accounted for after the safari in line with Government Financial Regulations and Procedures.

6.0 Imprests - Temporary Imprest to MCA's for Accommodation and Transport

The County Assembly issued MCA's with temporary imprests during the year under review totaling Kshs.12,168,800, to cater for accommodation and transport while attending Budget discussions and Liaison meetings in Kisumu and Nairobi on various dates. However, no attendance register or nomination letters for meetings were availed for audit review.

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

Nairobi

19 September 2016

DETAILED AUDIT FINDINGS

1.0 Budget Performance Analysis

During the audit, it was observed that the approved final budget for the County Assembly was Kshs.862,645,355 with Kshs.818,229,512 (95%) allocated to recurrent expenditure and Kshs.44,415,843 (5%) to development expenditure as detailed below:-

Item	Budget Kshs.	Actual Kshs.	Variance Kshs.	Absorption in % Kshs.	As % of Total Expenditure Kshs.
Recurrent	818,229,512	809,848,669	8,380,843	95%	97%
Development	44,415,843	25,981,563	18,434,280	5%	3%
Total	**862,645,355**	**835,830,232**	**26,815,123**		**100%**

Analysis of the budget against actual revealed that the Assembly had underspent by a total of Kshs.26,815,123 in the year under review. The under expenditure of Kshs.26,815,123 should be represented by cash and bank balance as at 30 June 2015 if all the budgeted cash was received. However, the cash and bank balances as at the same date was Kshs.206,120 resulting in unexplained variance of Kshs.26,609,003.

The underutilization of the budget is an indication that some of the planned programmes and projects were not implemented thus slowing delivery of services to the citizens of Homa Bay County.

Recommendation

The management should operate within their budget to ensure quality delivery of services to the people of Homa Bay County.

2.0 Procurement of Goods and Services

2.1 Unaccounted for Fuel

During the audit for the year under review, it was noted that the fuel register was not updated from July 2014 to February 2015, resulting in unaccounted for fuel totalling Kshs.904,808. Further, fuel consumption reflected on the Total Kenya card statement amounting to Kshs.904,808 was not reflected on the work tickets as detailed below;-

a) Motor vehicle registration number KBY 343C had fuel consumption amounting to Kshs.385,271 not posted in the vehicle's work ticket as per the work ticket numbers L626558, L626528, L626536, L626538, L626541, L626547 and K400699.

b) Motor vehicle registration number KBW 364V had fuel consumption amounting to Kshs.147,938 not posted in the vehicle's work ticket as per the work ticket numbers

L626527, L626531, L626535, L626539, L626543, L626545, L626550, L626562, L626569, L626573 and L626576.

c) Motor vehicle registration number KBW 365V had fuel consumption amounting to Kshs.371,599 that was not posted in the vehicle's work ticket as per the work ticket numbers L626526, L626532, L626534, L626537, L626542, L626544, L626548, L626561, L626565, L626568, L626574 and L626577.

Recommendation

The management should avail for audit verification, all records to account for the fuel consumed failure to which the responsible officers should be surcharged.

2.2 Purchase of Fuel by Cash

Information availed for audit revealed that the County Assembly's motor vehicles used Total Petrol Station's fuel cards, while at times using cash for fueling. Consumption of fuel of 1,985.95 litres was not accounted for as follows:

a) Motor vehicle registration number KBY 343C consumed a total of 1,563.85 litres which were posted on the work ticket but the cash sale receipts and vouchers accounting for the same were not availed for audit examination.

b) Motor vehicle registration number KBW 364V consumed a total of 300.1 litres which were posted on the work ticket but the cash sale receipts and vouchers accounting for the same were not availed for audit examination.

c) Motor vehicle registration number KBW 365V consumed a total of 122 litres which were posted on the work ticket but the cash sale receipts and vouchers for the same were not availed for audit examination.

Recommendations

Cash sale receipts and vouchers should be availed by management for audit review failure to which the responsible officers be surcharged.

2.3 Ward Offices Rent

Records availed for audit revealed that rent paid for ward offices ranged between from Kshs.3,000 to Kshs.20,000. Fourteen out of the fifteen offices paid Kshs.20,000 which appeared to be on the higher side as detailed in **Appendix I.** It is not clear on what basis the rent being charged was determined.

Recommendations

Management should provide details of the basis used to determine rent payable and whether it concurs with the Government guidelines on rent payable for its offices.

2.4 Ward Offices Operation Expenses

Information availed for audit revealed that the Assembly paid a total of Kshs.94,976,000 as ward operation expenses. It was noted that the ward offices do make returns to the Assembly. However, proper records such as bank statements, cash book, staff attendance register, petty cash vouchers, salary returns, total expenditure return and assets inventory for each ward, were not maintained. Consequently, the accuracy of the ward office operation expenses of Kshs.94,976,000 could, therefore, not be confirmed.

Recommendations

The management should provide all support documents in support of the ward operations expenses for audit review failure to which the responsible officers should be surcharged.

3.0 Fixed Assets Register

During the audit, it was noted that the County Assembly did not maintain an accurate and updated fixed assets register for its non-current assets and whose value amounted to Kshs.93,242,948. The following assets of the Assembly were missing from the register; Land of unknown value, Hansard machine costing Kshs.8,934,500, and Furniture totalling Kshs.8 million for the MCAs. Further, the title deeds of Land of unknown value were not availed for audit verification.

Recommendations

The management should avail land title deeds for audit review and update the fixed asset register failure to which the responsible officer is held liable and accountable.

4.0 Unsecured Car & Mortgage Loans

Records availed for audit revealed that the County Assembly issued car and mortgage loans to Members of the County Assembly totalling Kshs.72,328,000 through Homa Bay Car Loans & Mortgage Scheme Fund.

Financial statements for the Fund for the year ended 30 June 2015 were not availed for audit review. It was also noted that the Fund operates a bank account without a cash book contrary to Section 167(3) of Public Finance Management Act, 2012.

Records available showed that the members of the Assembly held unsecured loans totaling Kshs.171,756,901 as at 30 June 2015 as detailed in **Appendix II**.

Two (2) Members of the County Assembly (MCA), passed on 10 February 2015 while holding loans of Kshs.4,541,666 each without any collateral issued. It was not possible to ascertain how the loans would be cleared or whether the same were insured.

Recommendations

The management should comply with the Public Finance Management Act, 2012 and ensure all loans are properly secured and recovered within the term of office of the Member of County Assemblies failure to which the responsible officer is held liable and accountable.

5.0 Committee meetings held outside Homabay County Assembly Offices

Records availed for audit review revealed that the County Assembly paid a total of Kshs.5,540,800 to MCAs attending various committee meetings outside the Assembly offices as detailed in **Appendix III**. However, the minutes for selection committee, bonding session and attendance registers were not availed for audit verification. In addition, transport costs was paid upfront rather than issuing imprests to be accounted for later.

Recommendations

The management should avail for audit verification records pertaining to these meetings failure to which the responsible officer is surcharged.

6.0 Temporary Imprest to MCA's for Accommodation and Transport

Records availed for audit revealed that temporary imprest totalling Kshs.12,168,800 was issued to MCA's as detailed in **Appendix IV.** This was paid to cater for accommodation and transport while attending budget discussion and liaison meetings in Kisumu and Nairobi on various dates. However, on surrender of the imprests, the amount advanced for transport of Kshs.2,784,000 was not supported by receipts for accountability purposes. The MCAs were granted advances of Kshs.20,000 each. No attendance register for all the activities was availed for audit verification.

Recommendation

The management should avail for audit verification the receipts to support the surrender of Kshs.2,784,000 and attendance registers to support the surrender of Kshs.2,784,000 failure to which the money should be recovered from the Members of County Assembly.

Conclusion

The Homa Bay County Assembly should address the weaknesses noted in order to ensure effective delivery of services to the people of Homa Bay County. Further, laid down Government procedures and regulations should be followed to ensure public resources are only used for purposes for which they were intended. The County Assembly should ensure adherence to the provisions of the Public Finance Management Act, 2012, as it relate to use and management of public resources.

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Nairobi

19 September 2016