

REPORT OF THE AUDITOR-GENERAL ON COUNTY EXECUTIVE OF HOMA BAY FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of the County Executive of Homa Bay set out on pages 1 to 23, which comprise the statement of financial assets and liabilities as at 30 June 2017, and the statement of receipts and payments, statement of cash flows and summary statement of appropriation for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution and Section 35 of the Public Audit Act, 2015.

I do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

In addition, as required by Article 229(6) of the Constitution^[BNK1], I am not able to confirm that public money has been applied lawfully and in effective way.

Basis of Disclaimer of Opinion

1. Inaccuracies in Several Financial Statement Balances

- i. The following differences were noted between some of the balances in the financial statements brought forward from the previous year and the respective account balances reflected in the previous year's statements^[BNK2]^[TJG3]:

	Opening Balance 2016-2017 (Kshs)	Audited Balance 2015-2016 (Kshs)	Difference (Kshs)
6.2 Statement of Assets and Liabilities			
Cash and cash equivalent	4,500,000	64,887,427	60,387,427
Accounts Receivables- Outstanding Imprest			
Total Financial Assets	162,222,378	164,121,726	1,899,348
Notes 13 and 15			
Fund balance Figure	534,220,371	102,722,378	(431,497,993)

Note 15 (2015-2016)			
Account Payable (Deposits)	0	4,500,000	4,500,000
Note 11			
Executive Car Loan and Mortgage	63,000,000	55,000,000	(8,000,000)
Note 4			
County Own Generated Receipts			
Other Receipts Not Classified	0	21,432,069	21,432,069
Various Fees	21,432,069	6,834,810	(14,597,259)

- ii. The following differences were noted between the budget execution report extracted from Integrated Financial Management Information System (IFMIS) and the summary statement of comparison of budget and actual amounts presented in the financial statements:

Item	Budget Kshs.	IFMIS Kshs.	Difference Kshs.
Development budget	2,098,073,095	2,077,611,600	20,461,495
Recurrent budget	4,633,840,430	3,698,581,090	935,259,340

- iii. Also, the aggregate development and recurrent expenditure balances reported in the financial statements differ with those reflected in the IFMIS as tabulated below:

Item	Amount as per Financial Statements	Amounts as per IFMIS	Difference
	Kshs.	Kshs.	Kshs.
Development Expenditure	2,008,537,814	1,230,127,057	778,410,757
Recurrent Expenditure	4,430,744,956	3,582,631,340	848,113,616

These financial statement figures are therefore not supported by IFMIS which is the principal reporting system for the County Executive. No plausible explanations have been provided by management for these discrepancies.

1.1 Receivables (Outstanding Imprests)

The total financial assets balance of Kshs.4,251,000 reflected in the statement of assets and liabilities under accounts receivables (outstanding imprests) includes Kshs.142,800 issued to an officer in the Executive Service department being the only amount in the list of outstanding imprests and Kshs.178,500 issued under warrant number 2357230. The two balances are captured in the Integrated Financial Management System (IFMIS) in the imprest register but not in the list of outstanding imprests, hence the remainder imprests totaling Kshs.4,108,200 were processed outside the IFMIS system contrary to the requirements of the County Financial Accounting and Reporting Manual.

1.2 Prior-Year Adjustments

The statement of assets and liabilities includes a credit of Kshs.12,542,175 described as a prior-year adjustment. In the previous year's (2015-2016) financial statements, the account reflected a debit balance of Kshs.534,220,370. However, the balance is not supported with documentation to show how it changed from a debit to a credit balance. Consequently, the accuracy and validity of the prior-year adjustment cannot be confirmed.

1.3 Unexplained Adjustment in the Summary Statement of Appropriation – Combined

Included under receipts in the summary statement of appropriation recurrent and development combined is a final budget balance of Kshs.6,731,913,525 which includes an adjustment of Kshs.87,991,188 for the previous (2015/2016) year. However, the balance is not explained and further, it has the effect of overstating the receipts final budget balance by the same amount. No explanation has been provided by management concerning the figure.

In view of these discrepancies, the accuracy and validity of the financial statements cannot be confirmed.

2. Inaccuracy of Health Appropriations –in –Aid Revenues

Included in the statement of receipts and payments under Note 4 to the financial statements are other receipts which include Kshs.40,000,000 from public health operations and Kshs.5,588,734 from public health services thus raising the total amount in the financial statements to Kshs.45,588,734. An analysis of revenues collected per health facility indicated that a total of Kshs.68,575,668 was collected by health facilities during the year under review. Therefore, the total collections reported in the financial statements are less than those on record by Kshs.22,986,934 which difference which has not been explained.

Consequently, the accuracy and validity of revenue collections totaling Kshs.45,588,734 reported during the year under review cannot be confirmed.

2.1 Under Receipt of Free Maternity Funds

Included under Note 3 to the financial statements is transfer from other government entities balance of Kshs.327,901,940 which includes an amount of Kshs.121,290,000 received by the County Executive for free maternity health care against an annual budget allocation of Kshs.128,736,441 resulting to a difference of Kshs.7,446,441. The shortfall had not been disbursed as at 30 June 2017.

As a result of the delay in disbursing the funds totaling Kshs.7,446,441, free maternity health care facilities available to residents of Homa Bay County during the year under review were constrained.

2.2 Unsupported Transfer of Funds

During the year under review, funds were transferred from the County's Central Bank accounts to twelve (12) departmental bank accounts maintained in commercial banks from which expenditures totaling Kshs.651,114,087 were paid out through cheques. However, contrary to Section 51 of the Public Finance Management Act (County Government Regulations 2015) which requires that no public officer shall spend or commit funds until he or she has been properly authorized by means of an Authority to Incur Expenditure (AIE), the transfers were not supported by authority to incur expenditure (AIE) showing the votes on which the funds were to be spent. Also payment of the transfers by cheque contravened Government policy which requires all payments to be made online through the internet banking platform. Further, cash books, payment vouchers and other related documents were not made available for audit verification and as a result the accuracy and authenticity of the reported transfers could not be confirmed.

Consequently, the management breached the law by making payments without Authority to Incur Expenditure (AIE) and using cheques instead of the online internet banking platform and further, the propriety of the transfers could not be confirmed.

2.3 Omissions of Facilities Improvement Fund Expenditure in the Financial Statements

Revenues collected by health facilities under Facilities Improvements of Funds (FIF) were not banked into the County Revenue Fund bank account but were instead spent at source by the health facilities through approvals granted by the Chief Officer Health. In addition, an analysis of the AIEs indicated that a total of Kshs.59,223,505 was spent by health facilities during the year under review. However, these expenditures were not incorporated in the financial statements despite the respective AIAs revenues of Kshs.46,039,714 having been included in the statement of receipts and payments under other receipts item.

Consequently, the accuracy of FIF expenditure in the financial statements cannot be confirmed.

2.4 Irregular Transfer of Funds to County Assembly

The Department of Transport and Infrastructure transferred a total of Kshs.43,000,000 voted for construction of roads to Homa Bay County Assembly contrary to the provisions of Section 154 (1) of the Public Finance Management Act, 2012 which prohibits unapproved transfers of budgeted funds from one county government entity to another. Therefore, the management breached the law.

2.5 Irregular Transfer of Funds to other Departments

During the year under review, the County made transfers of funds totaling Kshs.336,500,000 from six (6) to four (4) of its departments contrary to Section 154(1) of the Public Finance Management Act, 2012 which provides that an Accounting Officer shall not authorize the transfer of appropriated funds to another county government entity or person without authority of the County Assembly. The transfers are shown in the table below:

From	To	Amount (Kshs)
Transport & Infrastructure Dept	Homa Bay County Assembly	60,000,000
Transport & Infrastructure Dept	Finance and economic planning	9,700,000
Health Department	Homa Bay County Assembly	50,000,000
Health Department	Executive Services	65,800,000
Health Department	Finance and Economic Planning	10,000,000
Agriculture	Finance and Economic Planning	40,000,000
Education	Water Department	10,000,000
County Executive	Finance and Economic Planning	41,000,000
Lands	Finance and Economic Planning	50,000,000
	Total	336,500,000

Consequently, the transfer breached the law and adversely affected service delivery by the respective departments.

3. Unbudgeted Expenditure for Compensation of Employees

Included in the statement of receipts and payments is compensation of employees' expenditure balance of Kshs.2,491,138,011 which however exceeds the approved budget of Kshs.2,316,095,924 by Kshs.175,042,087, resulting to an over – expenditure. No evidence has been presented to confirm that the over-expenditure was approved by the County Assembly.

Consequently, the propriety of the excess expenditure of Kshs.175,042,087 cannot be confirmed.

3.1 Unsupported Remittance of Statutory and Loan Deductions

Included under Note 6 to the financial statements is a balance of Kshs.2,491,138,011 which includes Kshs.597,861,576 being payroll deductions for the National Hospital Insurance Fund (Kshs.40,530,596), co-operatives, the Higher Education Loans Board, banks and other loan deductions (Kshs.112,518,618), share contributions (Kshs.44,818,952) and Pay as You-Earn (Kshs.399,993,410). However, supporting documents namely, payment vouchers, bank statements and related evidence to confirm remittance of the amounts to the respective institutions were not made available for audit verification.

Consequently, the accuracy and validity of the statutory remittances cannot be confirmed.

3.2 Unsupported New Appointments

The compensation of employees balance of Kshs.2,491,138,011 reflected in the Statement of Receipts and Payments increased by Kshs.383,132,007 during the year under review. However, the County Public Service Board did not provide the list of applicants, short listed and successful candidates and their qualifications and appointment letters for audit verification.

In absence of the vital documents, it was therefore not possible to ascertain the number of new recruits and verify the accuracy and propriety of the increase in personnel emoluments expenditure during the year under review.

4. Unsupported Expenditure on Domestic and Foreign Air Travel

Included in use of goods and services balance of Kshs.992,473,945 under Note 7 to the financial statements is expenditure of Kshs.103,372,760 and Kshs.24,394,000 incurred on domestic and foreign travel which in turn includes domestic expenditure of Kshs.503,130.00 and foreign expenses of Kshs.8,450,000.00 all totaling to Kshs.8,953,130. However, supporting schedules and payment vouchers for the Kshs.8,953,130 were not made available for audit review. In addition, IFMIS records revealed the supplier's (Agencies Company Limited) account on record was Kshs.32,900,000 resulting to a difference of Kshs.23,946,870 reported as the amount spent on purchase of air tickets during the year.

Consequently, the accuracy and validity of the air tickets expenditure of Kshs.32,900,000 cannot be confirmed.

4.1 Unsupported Supply of Non-Pharmaceutical Items

Aby-Meds Suppliers was awarded tenders for supply of Non-pharmaceutical items through various local purchase orders with an aggregate value of Kshs.6,641,500.00 by the Department of Health. An amount of Kshs.1,411,400.00 was paid in the year

under review leaving a pending balance of Kshs.5,230,100 for the department of health as at 30 June 2017^{[BNK4][TJG5]}. Examination of the supporting documents revealed the following inconsistencies:

- (i) The inspection and acceptance committee minutes attached to the payment vouchers were photocopies instead of the original documents.
- (ii) All the transactions shared the same invoice date, LPO date, delivery note date and S13 date which in reality is not possible because the supplier would ordinarily require time to package and deliver goods
- (iii) Order No's 2430462, 2430461, 2430460 and 2430463 were delivered on 4 September 2015, 4 September 2015, 28 September 2015 and 4 September /2015 respectively whereas inspection is indicated as having been done on 21 August 2015 which was way before the items were delivered.
- (iv) Order No 2430460 was not supported by an inspection certificate
- (v) All the orders relate to 2014/2015 and 2015/2016 financial years and management has not provided explanations for the delay in payment of the supplier. An approved requisition from the user was not attached to the voucher.

Consequently, the propriety of the expenditure of Kshs.1,411,400 cannot be confirmed.

5. Unaccounted for Expenditure on Acquisition of Assets

Included in the statement of receipts and payments is an acquisition of assets balance of Kshs.2,008,537,814. However, relevant documents namely; payment vouchers, procurement documents and related tender records have not been made available for audit verification.

Consequently, the accuracy, validity and the propriety of the expenditure of Kshs.2,008,537,814 for the year ended 30 June 2017 cannot be confirmed.

5.1 Payments for Works Not Done

Included in acquisition of assets are road reconstruction costs totaling Kshs.479,303,273 which in turn include a payment of Kshs.3,901,903 to M/s Chrisot Agencies made through voucher No.10003602 for heavy grading, gravel patching and ditch cleaning of Murram-Disii road. However, physical verification revealed that the works were not done. In addition, another contractor, Pasho Limited was paid

Kshs.4,594,082 through voucher No. 10003554 for ditch cleaning at Kshs.1,360,000, gravel patching at Kshs.2,704,014 and heavy grading of Paga-Kipasi Road at Kshs.180,000. However physical verification revealed that ditch cleaning budgeted for at a cost of Kshs.1,360,000 was not done.

Consequently, the propriety of the total roads construction expenditure of Kshs.5,261,903 cannot be confirmed.

5.2 Unaccounted for Expenditure

The development appropriation account reflects actual total expenditure of Kshs.2,008,537,814 out of which Kshs.67,750,605 was not supported. A fire incident that burnt vital documents was cited by management as the main reason for the omission. The analysis is as shown below:

Date	Voucher no.	Item	Payee	Amount Kshs.
11-Nov-16	10003322	Capital Transfer - Other (Building)	Equity Bank Limited	8,250,605.50
10-Jan-17	10003516	Capital Transfer - Other (Building)	Homa Bay County Government	6,000,000.00
27-Jan-17	10003558	Capital Transfer - Other (Building)	Homa Bay County Government	11,500,000.00
31-Jan-17	10003573	Capital Transfer - Other (Building)	Department of Finance and Economic Planning	5,000,000.00
27-Feb-17	10003591	Capital Transfer - Other (Building)	Equity Bank Limited	20,000,000.00
13-Mar-17	10003597	Capital Transfer - Other (Building)	Department of Finance and Economic Planning	10,000,000.00
21-Mar-17	10003607	Capital Transfer - Other (Building)	Department of Finance and Economic Planning	7,000,000.00
		Total		67,750,605.50

The following additional issues were noted during the audit:

The abstract from police records OB No. CR 617/181/2017 CF 480/2017 of 11 December 2017 did not specifically point to the person(s) responsible for the fire. In absence of records said to have been destroyed by fire, the accuracy and completeness of the balances in the financial statements cannot be confirmed.

5.3 Delayed Construction of Kadongo- Gendia Road

The County Executive awarded three firms the tender for, construction of Kadongo-Gendia Road to bitumen standards in the year 2015 at a combined cost of Kshs.687,270,372.60. The contractors three total sums were; Nairobi Logistics and Construction Limited Kshs.240,145,731.00, Bridgestone Construction company Kshs.207,765,465.60 and Pepeta Holdings Limited Kshs.239,359,176. The contract period was 12 months between October 2015 and October 2016. The length of the road was 33 (thirty-three) kilometres and each contractor was expected to work on eleven kilometers.

At the time of physical verification on 15 December 2017, furniture works costing a total of Kshs.23,900,000 to be done by the three contractors were yet to be installed. In addition, Pepeta Limited had not tarmacked three kilometers of its section. Further, the road seemed not to have been done to the expected standard as some sections had cracks and had peeled off before the works were completed.

During the year under review, Bridgestone Construction Company were paid Kshs.5,000,000, Nairobi Logistics were paid Kshs.28,700,000 while Pepeta Holdings Limited were paid Kshs.34,768,965.50. The total contract sum was Kshs.687,270,372.60 and cumulatively, the contractors had been paid Kshs.302,843,516 (Bridgestone Construction Company Kshs.78,000,000; Nairobi Logistics Kshs.117,653,989.94; and Pepeta Holdings Limited Kshs.107,189,526) equivalent to 44% of the total contract price as at 30 June 2017.

As is evident completion of the works was unduly [BNK6] and this may occasion escalation of costs. Further, defects, on work done, if any, are unlikely to be corrected since the County Executive has not made provision on the Court Case which were not availed for audit verification and on money relating to the contract that was lost through fraud in the year 2014.

Consequently, the public may not obtain value for the money invested in this project.

5.4 Unsupported Renovation of County Referral Hospital

During the year under review, the Health Department budget totaling Kshs.250 million included an amount of Kshs.47 million set aside for renovation of the County Referral Hospital that had been awarded to M/s Nyobu Enterprises in 2014/2015 at a cost of Kshs.111 million. According to the project implementation status report, the amount certified and paid to the contractor amounted to Kshs.17,886,444 out of which Kshs.5 million was paid to the contractor during the year under review. The contractor was not on site at the time of the audit, having only completed the car park while the construction of the gate estimated to cost Kshs.1,500,000 had stalled. Consequently, the propriety of the expenditure of Kshs.1,500,000 incurred on the project could not be confirmed.

5.5 Unsupported Payments-Ministry of Tourism

Included in the statement of receipts and payments under Note 10 is acquisition of assets expenditure totaling Kshs.2,008,537,814 which includes construction and civil works of Kshs.686,494,603 which also includes Kshs.9,123,523 in the detailed payments generated from IFMIS and paid from the development vote of the Department of Tourism. However, documents supporting the later payment were not made available for audit verification.

As a result, the propriety of the expenditure of Kshs.9,123,523 cannot be confirmed.

5.6 Stalled Project-Fencing Stadium and Other Works

On June 20 2016, the County Executive awarded Manjano Enterprises Limited a tender for construction of a perimeter wall fencing and related works for the County Stadium in Homa Bay at a cost of Kshs.28,228,308. The firm was paid a total of Kshs.5,856,744 which sum is reflected in the statement of receipts and payments and Note 10 to the financial statements. However, the respective payment vouchers were not availed for audit verification. A visit to the stadium on 4 January 2018 revealed that the contractor erected columns (Pillars) covering half of the stadium perimeter only but had thereafter abandoned the site.

In view of the situation observed, the propriety of the expenditure of Kshs.5,856,744 incurred on the project during the year under review cannot be confirmed. Further, the residents of Homa Bay County are yet to obtain any value from the sum of Kshs.5,856,744 spent on the project.

5.7 Delayed Payment to Contractor - Outpatient and Consultancy Block – Rachuonyo District Hospital

The summary statement of appropriation reflects a development vote acquisition of assets balance of Kshs.2,098,073,095 which includes a provision of Kshs.64 million for construction of Rachuonyo Outpatient and Consultancy Block.

Nyawaka Enterprises was awarded the tender for construction of an outpatient and casualty Block at Rachuonyo District Hospital –Oyugis by the Rachuonyo South tender meeting held on 20 April 2012 at a cost of Kshs.19,816,800.00 with Kshs.7,900,000.00 being made available for the project at the time. The commencement date was 24 April 2012 and a contract period of 16 weeks to 24 August 2012. The contract was taken over by the County Government of Homabay after which the total contract sum was revised and rose above the initial contract sum by Kshs3,182,961 to Kshs.22,999,761. The contractor raised a works certificate for Kshs.5,093,125.00 which was certified by the County Works Officer on 29 August 2014. At the time of the audit, the payment was outstanding and the project had stalled.

As a result, , the locals have not got value for the money invested in the project despite an additional provision of Kshs.64 million made after the project stalled.

5.8 Unsupported Supply of Oxygen Materials-Homabay District Hospital

Included in the statements of receipts and payments under Note 10 to the financial statements is acquisition of assets balance of Kshs.2,008,537, 814 which includes purchase of specialized plant, machinery and equipment valued at Kshs.132,896,919 and Kshs.3,506,000 being supply, delivery and installation of oxygen plant materials to Homabay District Hospital. The items were delivered on 10 October 2016, inspected by the inspection and acceptance committee on 26 October 2016 and received in the stores on 9 February, 2017 through S13 No 8830196.

Physical verification of the items at the Hospital on 3rd January, 2018 revealed the following unsatisfactory matters:

- (i) The County Hospital stores could not provide a distribution list showing the number of equipment issued to various sections within the Hospital and therefore the validity of the deliveries could not be confirmed.
- (ii) The oxygen plant supplies were not put to use due to breakdown of the oxygen production plant at the hospital. One year after the purchase, the hospital management were referring patients to Kisumu County hospitals or private hospitals despite the huge costs it had incurred on purchase of the equipment. Consequently, the existence of the assets and the value-for-money to the locals could not be confirmed.

In view of these anomalies, it has not been possible to confirm the propriety of the expenditure of Kshs.132,896,919 incurred on purchase of the specialized equipment.

5.9 Unsupported Supply, Delivery and Commissioning of Cotton Processing Plant-Kendu Bay

Included in the statement of receipts and payments and Note 10 to the financial statements is acquisition of assets balance of Kshs.2,008,537,814 which includes purchase of specialized plant, machinery and equipment of Kshs.132,896,919 that was to include purchase and installation of a cotton processing plant at Kshs.5,000,000. The County Government of Homabay entered into a contract agreement for supply, delivery, installation and commissioning of cotton processing plant at Kendu Bay at a contract price of Kshs.21,021,520 with M/s Log Associates on 5 March 2015. All correspondences relating to the execution of the contract on behalf of the County were done by the Chief Officer /Accounting Officer, Department of Trade, Industrialization, Investment and Cooperatives.

Examination of the payment voucher/invoice revealed the following unsatisfactory matters:

- (i) The procedure through which the contractor was identified and awarded the tender was not disclosed.
- (ii) The contractor presented terms and conditions of payments which were signed by the Chief Officer in the department.
- (iii) The equipment were not delivered despite the contractor having been paid Kshs.5,000,000 on 5 March 2015 to leave a pending bill of Kshs.5,000,000 as at 30 June 2017. [BNK7]

[TJG8]

Physical verification of the project on 9 January 2018 revealed that the purported cotton processing plant did not exist and no construction site was attributed to the plant.

Consequently, the propriety of the expenditure of Kshs.5,000,000 reported to have been incurred on the plant cannot be confirmed.

5.10 Unaccounted for Solar Lighting Equipment

The County Executive awarded a contract for supply, installation, testing and commissioning of 170 solar flood lights to several markets in 40 county wards to M/S Horizon in the year 2014-2015 at a contract sum of Kshs.46,638,589.

However, no records were made available to show the sites the floodlights were installed. As a result, the floodlights were not accounted for.

Consequently, it has not been possible to confirm propriety of the expenditure and whether the residents of Homa Bay County obtained value-for-money from the expenditure. [BNK9]

[TJG10] 6. Unsupported Car Loans and Mortgages

Included in the statements of receipts [BNK11][TJG12] and payments under Note 11 is Kshs.92,633,000 incurred in respect of car loans and mortgages. However, schedules supporting this figure were not availed for audit verification and confirmation. Further, analysis of the bank statements for car loans and mortgage (A/C No 0980265695510) revealed that a total of Kshs.98,193,721.80 was transferred to the account during the year under review. Further, management did not avail the list of the persons who benefited from the loans and mortgages and their respective loan balances as at 30 June 2017. Also, the regulations governing the fund were not availed for audit verification.

Consequently, the failure to recover the loans may lead to loss of funds if the members leave without paying the unsecured loans. Further, absence of regulations

for the Fund could mean that no proper procedures are applied in managing the Fund's operations.

In view of these discrepancies, it is not possible to confirm the accuracy of the Car Loan and Mortgages account balance as at 30 June 2017.

7. Unreconciled Cash and Cash Equivalent Balances

- i. Included in the cash and cash equivalent balance of Kshs.236,771,852 are six bank accounts whose reported balances do not tally with the balances reflected in the respective bank reconciliation statements. In addition, the balance held in the Okok Dispensary - Co-operative Bank Account No.1141047986500 has been included twice in the schedule supporting cash and cash equivalent.
- ii. Included in the cash and cash equivalent under Note 13 to the financial statements is an amount of Kshs.954,765 held in a Bursary Fund account as at 30 June 2017. This is double accounting since the entire amount of Kshs.34,500,000 transferred to the bursary fund was expensed in the financial statements.
- iii. Included in the cash and cash equivalent balance of Kshs.^[BNK13]_[TJG14].236,771,852 are fifteen bank accounts holding cash totaling Kshs.222,645,211 as at 30 June 2017. However, the accounts are not supported by cash books, bank reconciliations and certificate of balances. In addition, the cash and cash equivalent balance includes an amount of Kshs.43,553,704 held in the County Revenue Fund Account No. 1000171065 as at 30 June 2017 but the corresponding bank statement balance shows a balance of Kshs.513,593,704 resulting to a variance of Kshs.470,040,000 that has however not been supported by a bank reconciliation statement.

Consequently, the accuracy and validity of cash and cash equivalent of Kshs.236,771,852 cannot be confirmed.

8. Inaccuracy of Deposits and Retention

The statement of assets and liabilities reflects accounts payables on deposits and retention as a nil balance. However, examination of payment vouchers revealed that the County government retention amount totaling to Kshs.1,585,302.00 were not disclosed against seven (7) contractors and were also not paid by the County Executive to a separate retention account as required under Section 6.11 on contract retention fund of the County Financial Accounting and Reporting Manual of 2015. Further, the management did not retain a retention register.

Consequently, the management breached the law by not maintaining a separate retention account for accountability and disclosure in the financial statements as stipulated in the reporting template prescribed by the Public Accounting Board.

9. Understatement of Pending Bills-KEMSA

The financial statements reflect pending bills totaling Kshs.452,884,231 as at 30 June 2017. However, a sum of Kshs.91,620,619 owed to Kenya Medical Supplies Agency(KEMSA) as per the Agency's statement dated 21 December 2017 was not included in the pending bills balance. As a result, the bills were understated by Kshs.91,620,619 as indicated in KEMSA's statement of account.

In view of the omission, the accuracy and validity of the pending bill balance of Kshs.452,884,231 as at 30 June 2017 cannot be confirmed.

Further, the bank balance of Kshs.236,771,852 on 30 June 2017 was less than the pending bills balance of Kshs.452,884,231 reported in the financial statements. It was not clear how the difference of Kshs.216,112,379 would be funded as no evidence was provided for audit review.

9.1 Unsupported Pending Bill for Construction of Grain Handling Facility-Kigoto

During the year under review, the County Executive' Department of Agriculture, Livestock and Fisheries awarded M/s Go Construction Company the tender for construction of a grain handling facility in Kigoto, Suba Sub-county at a contract sum of Kshs.23,139,179.

However, a site inspection done on 20 December 2017 revealed that the contract sum of Kshs.23,139,179 included costs of construction of an office estimated at Kshs.866,960.00 in the tender document. Although construction of the office located at Lentil Stage had began at the time of the audit, there were no building materials on site. Work on the grain handling facility was yet to begin. However, the pending bill list indicated that the contractor was owed Kshs.5,500,000 which had not been paid at the end of the financial year under review. However, the bill was in excess of the estimated cost of the Office building which was Kshs.866,960. Further, construction of the Office was far from complete, which was ample proof that the budgeted cost would be exceeded. Further, there is no evidence in the statement of appropriation indicating that the factory was budgeted for during the year under review.

As a result of the anomaly, the propriety of the pending bill of Kshs.5,500,000 cannot be confirmed.

10. Limitation of Scope-Burnt Documents

- i. Homa Bay County Executive headquarters suffered a fire incident on 8 September 2017 which razed down important finance department records including financial documents, tender documents, assortments of procured materials, equipment, furniture and stationary as detailed below:

Items	Number (Units)
Payment Vouchers FY 2014/2015,2015-2016 & 2016-2017 for all Ministries in the Executive	-
Cash Books for General Bank Accounts Revenue, Recurrent and Development for FY 2015-2016 TO 2017-2018 1 st Quarter	-
Creditors ledger Deposited upto July 2017	-
Debtors ledger posted upto July 2017	-
Assets ledger posted upto August 2017	-
Imprest register posted upto August 2017	-
Imprest Warrant files for Unsurrendered Imprest upto August 2017	-
Cheque Books Unused for Standing Imprest Account	-
Bank statements for Central Bank Accounts, Revenue, Recurrent and Development for 2013-2014,2014-2015, 2015-2016 and 2016-2017	-
Tables executive	11
Chairs executive	7
Laptop	1
Cabinet	13
Desk top	3
Banners	-
Payment Vouchers/Cheques Counter foils	-
Payments Cashbook	-
Bank statements and reconciliation ^[BNK15] ^[TJG16] files	-

^[BNK17]

As a result of the fire, it was not possible to confirm the status of funds receipted and confirm particulars of all transactions that occurred at the cash office during the year under review.

11. Unfair Domination of Staff Establishment by the Local Community

The staff establishment in County Executive is dominated by the local ethnic community which constitutes ninety-nine (99) percent of the work force.

Consequently, the County recruitment procedures set in Section 65 (1e) of the County Government Act, 2012 have not been adhered to.

12. Unfunded Sub-County Hospital AIEs

The department of Health Services issued AIE No 797456 of Kshs.2.8 million to Mbita Sub-county Hospital and AIE No 797455 of Kshs.3.6 million to Sindo Sub-county Hospital but each hospital only received Kshs.500,000 of its allocation . Consequently, the underfunding of Kshs.5.4 million denied the sub-counties some health services due to them. Further, management did not explain how the unremitted balance of Kshs.5.4 million was used for the year ended 30 June 2017.

Other Matter

1. Budget Performance Analysis

During the year under review, the approved budget for the County Executive of Homa Bay was Kshs.6,731,913,525. However, casting [BNK18][TJG19] of budget figures revealed a sum of Kshs.5,776,192,690 with Kshs.3,698,581,090 (64%) allocated to recurrent and Kshs.2,077,611,600 (36%) to development expenditures respectively. The difference of Kshs.955,720,835 between [BNK20] the aggregate approved budget figure and the sum arrived at after casting individual budget item figures was not explained. Further, no documentary evidence was provided to indicate how the development funds were utilized.

1.1 Development Expenditure as per Departments

An analysis of expenditure absorption rates for development expenditure per department are shown below.

Item	Budget Kshs.	Actual Kshs.	Over Expenditure Kshs.	Under Expenditure Kshs.	Absorption %
County Executive (Governor)	65,000,000	59,604,134		5,395,866	92
Finance and Planning	79,419,452	108,757,546	29,338,094		137
Agriculture	164,000,000	113,377,424		50,622,576	69
Water and Environment	490,000,000	161,369,458		328,630,542	33
Education and ICT	135,599,000	44,945,045		90,653,955	33
Health	250,000,000	124,964,888		125,035,112	50

Services					
Lands and Housing	71,000,000	61,714,377		9,285,623	87
Transport and Infrastructure	570,990,400	511,459,157		59,531,243	90
Trade, Industry, Investments and Cooperatives	132,741,700	0			
Tourism, Culture and Sports	52,823,500	9,207,684		43,615,816	17
Energy and Natural Resource	66,037,548	34,727,344		31,310,204	53
Total	2,077,611,600	1,230,127,057	29,338,094	744,080,937	59

As the table shows, the County Executive overspent on one (1) department by 37% without approval.

- i. In addition, four (4) departments only spent 50% of their respective budgets or less and thus denied locals benefits of development funds availed to them.
- ii. In addition, under Water and Environment, the County Executive used unspent allocations to pay Kshs.187,006,192 to clear pending bills for the period 2015-2016 and Kshs.168,255,339 to clear bills for the period 2014-2015 without authority as the two expenditures were not budgeted for. Bills totaling 52,823,500 reported under Tourism, Culture and Sports include Kshs.8,207,684 for pending bills without authority. [BNK21]
- [TJG22]
- iii. Total pending bills for the period 2015-2016 cleared without authority amounted to Kshs.187,006,192. [BNK23]
- [TJG24]
- iv. The county set aside Kshs.63,000,000 and Kshs.130,000,000 for bursaries and car/mortgage activities during the year respectively but only transferred Kshs.34,500,000 to the bursary fund and Kshs.92,633,000 to the car loan/mortgage fund.

No plausible explanation has been provided by management for the failure to spend the allocated funds.

1.0 Recurrent Expenditure

An analysis of absorption rates for recurrent expenditure per department are shown below:

Item	Budget Kshs	Actual Kshs	Over Expenditure Kshs	Under Expenditure Kshs	Level of Absorption %
County Executive	486,166,772	617,943,591	131,776,819		127
Finance and Planning	552,782,952	528,860,813		23,922,139	96
Agriculture	168,095,440	157,859,228		10,236,212	94
Water and Environment	100,347,804	95,156,568		5,191,236	95
Education and ICT	337,153,548	290,519,081		46,634,467	86
Health Services	1,653,670,232	1,522,464,425		131,205,807	92
Lands and Housing	49,704,332	48,370,725		1,333,607	97
Transport and Infrastructure	41,335,725	59,147,440	17,811,715		143
Trade, Industry, Investments and Cooperatives	131,967,876	124,997,224		6,970,652	95
Tourism, Culture and Sports	63,076,964	53,121,177		9,955,787	84
Energy and Natural Resource	25,117,088	21,187,550		3,929,539	84
County Public Service Board	89,162,357	63,003,518		26,158,839	71
Total	3,698,581,090	3,582,631,340	149,588,534	265,538,284	97

The table shows that two departments' namely County Executive and Transport and Infrastructure and exceeded their budgeted provisions by 27% and 43% respectively. Management have not provided a plausible explanation for the excess expenditure.

2.0 Revenue Analysis

Analysis of the County Executive budget against financial statements data revealed significant variances between budgeted and actual receipts as shown in the table below. Further, all budgeted exchequer releases and donor funds were received except for transfers from other government entities that were under-collected by Kshs.42,911,152 or 37%.

Item	Budget Kshs	Actual Kshs	Over collection Kshs	Under collection Kshs	Collection %
Danida (Proceeds from foreign grants	12,385,000	12,385,000			
Exchequer releases	6,080,193,774	6,080,193,774			
Transfer from other government entities	370,813,092	327,901,940		42,911,152	73
Rents	8,011,159	4,074,200		3,936,959	51
Other Property Income	0	0			
Receipts from Administrative Fees and Charges	1,829,492	3,796,100	1,966,608		207
Receipts from sale of Incidental Goods	1,119,867	0		1,119,867	
Fines, Penalties and Forfeitures	637,131	1,495,445	858,314		235
Business Permits	23,295,013	12,786,700		10,508,313	55
Cesses	5,885,041	20,200,000	14,314,959		343
Poll Rates	4,284,294	1,200,432		3,083,862	28
Plot Rents	0	0			
Other Local Levies		623,915	623,915		
Various Fees	8,776,569	3,765,400		5,011,169	43
Council's Natural Resources Exploitation		0			

Lease/Rental of Council's Infrastructure Assets	106,000	2,500		103,500	2
Other Miscellaneous Revenue	1,095,361	3,254,076	2,158,715		297
Market/Trade Centre Fee	34,850,625	19,000,000		15,850,625	55
Vehicle Parking Fees	22,689,084	13,980,000		8,709,084	62
Other Receipts not classified elsewhere	17,712,823	5,769,000		11,943,823	33
Other Education-Related Fees	46,424	20,400		26,024	44
Public Health Services		5,588,734	5,588,734		
Public Health Facilities Operations	50,880,000	40,000,000		10,880,000	79
Environment & Conservancy Administration	667,480	578,000		89,480	87
Administration	6,068,720	4,654,371		1,414,349	77
Slaughter Houses Administration	1,613,792	1,464,240		149,552	91
Water Supply Administration	7,791	0		7,791	
Sewerage Administration	179,129	445,834	266,705		249
Other Health & Sanitation Revenues	553,317	450,980		102,337	82
Technical Services Fees	1,853,756	980,765		872,991	53
Total	6,655,554,734	6,564,611,806	25,777,950	116,720,878	99 [BNK25] [TJG26]

The total revenue budget was Kshs.6,655,554,734 against actual collections of Kshs.6,564,611,806 reflected in the financial statements. The management had budgeted to collect Kshs.192,163,869 of own revenue but only managed to collect

Kshs.144,131,092 resulting in a shortfall in revenue collection by Kshs.48,031,776. Management has not provided explanations for the huge shortfall in revenue collection [BNK27][TJG28].

3.0 Previous Year Matters

The Executive did not indicate the status and follow-up of audit issues reported in the previous year's (2015/2016) financial statements as required in the reporting template prescribed by the Public Sector Accounting Standards Board.

4.0 Implementation of County Projects

The County failed to avail status of all projects implemented in the year under review. Consequently, the propriety and accuracy of expenditure on development funds for the year cannot t be confirmed [BNK29][TJG30].

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards Cash Basis and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the County Assembly's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern accounting assumption. [BNK31][TJG32]

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

Those charged with governance are responsible for overseeing the County Assembly's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a

high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the County Assembly's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the County Assembly's ability to continue offering services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the County Assembly to cease to continue offering services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities to express an opinion on the financial statements.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



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

Nairobi

16 July 2018