

REPUBLIC OF KENYA



REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL OPERATIONS

OF

MACHAKOS COUNTY EXECUTIVE

FOR THE PERIOD
1 JULY 2013 TO 30 JUNE 2014

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

EXECUTIVE SUMMARY

BACKGROUND INFORMATION

The Constitution of Kenya, 2010 under Article 176, created the County Governments which consist of the County Assembly and the County Executive. The County Executive of Machakos consists of the County Governor, County Executive members as the top management. The mandate of the County Executive is to exercise executive functions in accordance with article 185 of the constitution.

INTRODUCTION

This audit covers the period 1 July 2013 to 30 June 2014. It was undertaken to assess the adequacy and reliability of the systems of management and financial controls instituted by the management of the County Government 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 in Article 229 to audit the accounts of the National and County Governments. In this regard, the office planned an interim audit of the systems of management and financial controls of the Machakos County Government for the period 1 July 2013 to 30 June 2014 with the following audit objectives:

- 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 process of acquisition of goods or services.
- Assessment of compliance with Public Financial Management Act in the utilization of public funds.
- Compliance with other relevant laws and regulations.
- To ascertain the integrity and reliability of financial and other information used by management in the utilization of public funds.
- 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.
- To confirm that all necessary supporting documents, records and accounts have been kept in respect of all transactions.

AUDIT METHODOLOGY

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

- Interviews with key officers at the County Government offices.
- Review of applicable legislation and regulations.
- Examination of payment vouchers, cashbooks, vote books, bank statements, and 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 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, expenditures incurred is fairly stated and fair 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 the audit and it is possible that there might be other matters and/or weaknesses that were not identified.

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.

Audit Findings

1.0 CURRENT ASSETS

1.1 Cash and Bank Balances

Examination of the main cash book revealed various weaknesses in the maintenance of the cash book.

- (i) The cash book was not updated on a regular basis. It was observed that even where the cash book was updated the balances were misstated and posted to wrong dates, description etc. For instance, between the month of July and September 2013, the total cash balance was misstated by Kshs.1,770,157, while cash at bank was overstated by Kshs.20,125,863.
- (ii) It was further observed that the cash book was not posted with payments.
- (iii) In some instances, the cash book reflected negative cash balances, which implied overdraft.

- (iv) It was further observed that there was rampant alterations of the cash book entries, a clear indication that cash book was being tampered with to read certain figures, which is fraudulent.
- (v) There were no bank reconciliations the entire period audited. Consequent to the observations made above, the County Executive's cash book cannot be relied upon to describe all the transactions that are carried out by the County.

1.2 Un-surrendered Imprest and Other Related Issues

Examination of imprest records indicated that there was no proper recording of imprest in some instances the imprests were not issued as per laid down guidelines of issuance of imprest:

- The Imprest register was not updated.
- Rampant issue of multiple imprests without surrender of the previous imprest held.
- Imprest issued without approval in some instances.
- Imprest amounting to Kshs.46,963,196 which was due for surrender remained un-surrendered as at 15th August 2014.

2.0 NON-CURRENT ASSETS

2.1 Purchase of Assets

The County Government procured the above vehicles and machinery at a cost of Kshs.219,415,091. Review of records available revealed the following weaknesses.

(a) Motor vehicles procured

It was noted that during the period under review the County Government procured one hundred and forty (140) units of Nissan Tiida, thirty four (34) units of Subaru Outback, two (2) Land Cruisers and one (1) Prado all at a cost of Kshs.32,855,000. It is not clear how the need for the vehicles was identified and how the vehicles were to be utilised. It was indicated that that the supporting documents; which included procurement and ownership documents had been taken away by the Ethics and Anti-Corruption Commission. No copies were availed by the County Government. Consequently, the integrity of the procurement process could not be ascertained.

(b) Ambulances

The County Government procured seventy (70) units of ambulances at a total cost of Kshs.145,348,000. The following was observed:

- The ambulances were second hand and the evaluators had indicated that they were not competent enough to evaluate the value of the ambulances. Consequently, although Kshs.145,348,000 was paid for the ambulances, their actual value could not be ascertained.

- It was further noted that no needs assessment had been done before the ambulances were procured. Consequently, it is not clear how the number of seventy (70) ambulances had been determined.
- No distribution schedules were provided. Consequently, it is not clear where the ambulances are situated.
- The log books were not produced for audit review. However, available information indicated that the vehicles are in civilian number plates and are registered in the name of Pharmatec Limited. It is not clear how the ambulances, which were meant to belong to the County Government, could be registered in the name of a private company. It is also not clear how much has been paid to the private company and any pending bills in respect of the ambulances.

(c) Tractors

The County Government also procured thirty two (32) units of Mersey Ferguson tractors to assist in farming at a cost of Kshs.41,212,091. However, the following weaknesses were observed:

- No baseline survey had been carried out before the procurement of the tractors. Their need and usefulness to the County Government could not be determined as no needs assessment had been carried out before procurement.
- No details were provided on the procurement process of the tractors. Consequently, their value and age could not be determined as supporting documents were not availed.
- No work tickets were availed for audit scrutiny to indicate how the tractors were being utilized. Consequently, it was difficult to monitor the use of the tractors in absence of work tickets.

(d) Police Vehicles

The County had planned to enter into Memorandum of Understanding (MoU) with Kenya Police Service to provide them with 91 Nissan Tiida. The following has however been observed:

- The MoU has not yet been signed between the County Government and the Kenya Police Service.
- The police took possession of the ninety one (91) Nissan Tiidas.
- The vehicles do not have any work tickets.
- The vehicles can be fueled by either the County Government or the Police thus creating a loophole for fraudulent activities where both parties can claim to have fueled the vehicles.

2.2 County Residential Houses

The National Housing Corporation developed a Housing Scheme, Depot Housing Scheme on Machakos Municipality Block 1/197-214 on behalf of Masaku County Council. Information available from National Housing Corporation indicates that the Scheme was developed by loan to the Council which was fully paid. However, the entire

25 units of houses were later taken over by the National Government under the Ministry of Housing and Urban Development and allocated to Civil Servants who have in effect been paying rent to the Ministry.

2.3 Immovable Assets

As reported in the previous special audit report, an undetermined number of land parcels and buildings belonging to the County valued at Kshs.961,451,472 did not have title deeds and were prone to grabbing or encroachment by unscrupulous individuals who might be privy to this fact.

Further, Records available show that 18 pieces of land of various sizes recognized by the then Municipal Council of Mavoko as public utilities in Syokimau and Numerical area of Mavoko Sub-County had been sub-divided and allocated to individuals and institutions under unexplained circumstances, a physical check revealed that most of the land had been developed privately and others fenced off while a few were vacant.

2.4 Work-in-progress

During the transition process there were several projects in various stages of progress in each of the defunct Local Authorities whose completion was not budgeted for in the County budget for the period 2013/2014 totalling to Kshs.12,542,292. It has not been established whether the projects have been incorporated in the county budget and development plan. There is the risk of these projects in various stages of completion not being completed.

3.0 CURRENT LIABILITIES

3.1 Pending Bills

The county records showed that there were pending bills which were due for payment but remained unpaid amounting to Kshs.712,863,900 as at 30 June, 2014. It is not clear how the amounts will be financed considering that it amounts to over 10% of all the disbursements from National Government of Kshs.6,014,475,357.00 in the year under review.

4.0 BUDGETARY CONTROL AND PERFORMANCE

The County Government of Machakos prepared and approved a budget of Ksh.8,015,566,492 which included Kshs.3,856,116,492 as recurrent expenditure and Kshs.4,159,450,000 as development expenditure through Machakos Appropriation Act, 2013. The appropriations included Kshs.77,450,000 for development expenditure and Kshs.716,500,000 for recurrent expenditure for the County Assembly. However expenditure details show that the County Executive received Kshs.6,014,475,357 whose breakdown has not been given on both recurrent and development. The allocation was under funded by Kshs.2,001,091,135. Further, out of the amount received the Executive had a total expenditure of Kshs.5,966,224,447 creating a surplus of Kshs.48,250,990.

5.0 EXPENDITURE

5.1 Procurement of Goods and Services

Procurement records revealed several anomalies:

- (i) Irregular splitting of contracts in order to allow use of quotations,
- (ii) Item description on request for quotations did not give specific technical requirements as required,
- (iii) Further, there was use of quotations for procuring goods valued over the Kshs.3,000,000 threshold,
- (iv) No inspection and acceptance report to acknowledge receipt of goods was received and,
- (v) There was no non-current assets register to confirm that furniture bought is included in the County's Executives assets register.

5.2 Funding of Rural Electrification Authority (REA) Projects in Machakos County

The department of Lands, Energy, and Environment & Natural Resources made two payments to the Kenya Rural Electrification Authority (REA) totalling to Kshs.30,000,000 for funding of REA projects in Machakos County without an appropriate work plan indicating areas to be supplied with electricity. It is therefore not clear what areas will be connected to electricity. Further, Rural electrification is a function currently bestowed upon National Government. The funding to REA may therefore be nugatory expenditure.

5.3 Street Lighting Kyumbi Turnoff To Machakos Town

The street lighting project from Kyumbi turnoff to Machakos town was carried out by the Machakos County Government under the Directorate of County Image but the cost analysis was not available to determine the total Cost of the Project.

5.4 Construction of the Governor's Office

The Ministry of Transport, Roads and public works and housing contracted a vendor to supply 5000 tons of hardcore for construction of the Governor's Office vide letter from Chief Officer dated 27 august 2013 and LPO number 2106257 dated 11-12-2013. An additional 1000 tons of hardcore was supplied at a cost of Kshs.2,305,000 as per LPO No 2106260. A visit to the project site established that the project had stalled. As at the time this project stalled the County Executive had incurred a total expenditure of Kshs.57,726,344.80 out of which Kshs.28,254,629.30 had been paid out. It was therefore not clear whether the project was properly planned and budgeted for.

5.5 Road Marking of Kamulu to Koma Hill

The department contracted and paid for road marking between Kamulu and Koma Hill section at a total cost of Kshs.8,542,747 through a request for quotations instead of open tender.

5.6 Tarmacking of Kithimani Makutano Ma Mwala Road (C100)

Examination of records on the tarmacking of Kithimani Makutano Ma Mwala Road (C100) revealed the following:

- (i) The road is 33 kilometres and construction was to be carried out by 11 contractors at a total cost of Kshs.568,700,009.04.
- (ii) The following weaknesses were observed on the project:
 - Feasibility study and detailed engineering design on the road were not carried out by the County Government, thus the decision to develop the road was not based on any quantitative economic criteria.
 - The advertisement was made once in the Daily Nation of 14 January 2014, page 29 and in a monthly publication called The Anchor of January 2014 contrary to Section 54 (10) of the Public Procurement and Disposal Act, 2005.
 - There was no procurement plan for the financial year 2013/2014 but the County Government still invited bids from eligible construction companies for road works for the upgrading of Makutano-Kithimani Road.
 - In the contract documents there was a design typical cross section which was not adhered to in many sections of the road especially at lot 10 steep sections on the right hand side.
 - The County Government opted for in-house supervision of construction works despite recommendations from the Director-General of KeNHA to procure the services of a Consulting Engineer to undertake the designs and supervise the construction of the Makutano-Kithimani Road since KeNHA had not allocated funds for such new projects.
 - There were no checkers stationed at the various construction sites on the project. Ideally, the project would have required 99 checkers if every contractor had at least 3 working groups/gangs on each kilometer per lot. In the absence of the supervision, the team cannot claim to have effectively supervised all the 11 contractors.
 - The County had not opened a separate bank account for an amount of Kshs.16,575,134.78, which was withheld by the County Government as retention money.
 - There were no prohibitory signs or alternate means to curb heavy trucks from using the road which would lead to premature failure of the road. This would be a heavy cost to the taxpayers.
 - By 14 October 2014, only four (4) contractors had substantially completed their works to the satisfaction of the Resident Engineer, while the rest seven (7) contractors had not completed the works and were still under the contractual agreement. It was indicated that some lots, whose number and value could not be determined as at the time of audit were taken over by the County Government. It was not clear how the costs of the lots taken over by the Government would be indemnified. It was also not clear whether the contractors whose lots had been taken over by the County Government would be paid the full contract price.

- The work was therefore not completed when the road was hurriedly commissioned and opened to traffic on 26 June 2014. The County Government should take remedial action promptly to address issues and concerns on safety, quality and worthiness of the Makutano Kithimani ma Mwala Road.

5.7 Department of Decentralized Units Urban Areas

i) Purchase of Generators

The Department of Decentralized units procured and paid for one 17 KVA generator and six 9 KVA generators for Kshs.10,400,000 and a Cummins Power Generator with Automatic change over switch plus installation and commissioning at a cost of Kshs. 9,257,776 through quotations which was way above the threshold for quotations.

ii) Irregular/Doubtful Procurement of Goods & Services

The Department of Decentralized units procured and paid for goods and services amounting to Kshs.8,687,300 without following the laid down procurement rules and regulations.

5.8 Department of Agriculture

(i) Purchase of Green houses

The County Government purchased 40 units of greenhouses at a cost of Kshs.42,500,000, however, no distribution list was provided for audit purposes to show the location and beneficiaries of the green houses and how the beneficiaries were identified.

(ii) Purchase of seeds (KDV4/KDV1 Maize Seeds)

The County Government purchased maize seeds, (KDV4 and KDV1 maize seeds) at a cost of Kshs.8,385,080 on 12 March, 2014. However, no list was provided to show the distribution of the seeds to farmers. Further no evidence was provided to show the resulting yields or harvests from the farmers and how the farmers benefitted.

Consequently the propriety of the above expenditure, all totalling Kshs.50,885,080 cannot be ascertained.

6.0 ICT INTERNAL CONTROL ENVIRONMENT

The County Executive has not developed a policy on ICT. Consequently, the Executive is not able to monitor changes made to all financial information systems.

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

Edward R.O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

19 May 2015

DETAILED AUDIT REPORT ON THE FINANCIAL OPERATIONS OF MACHAKOS COUNTY EXECUTIVE FOR THE PERIOD 1 JULY 2013 TO 31 MARCH 2014

DETAILED AUDIT FINDINGS

1.0 CURRENT ASSETS

1.1 Cash and Bank Balances

Examination of the main cash book revealed various weaknesses in the maintenance of the cash book.

- (i) The cash book was not updated on a regular basis. It was observed that even where the cash book was updated the balances were misstated and posted to wrong dates, description etc. For instance, between the month of July and September 2013, the total cash balance was misstated by Kshs.1,770,157, while cash at bank was overstated by Kshs.20,125,863.
- (ii) It was further observed that the cash book was not posted with payments.
- (iii) In some instances, the cash book reflected negative cash balances, which implied overdraft.
- (iv) It was further observed that there was rampant alterations of the cash book entries, a clear indication that cash book was being tampered with to read certain figures, which is fraudulent.
- (v) There were no bank reconciliations the entire period audited. Consequent to the observations made above, the County Executive's cash book cannot be relied upon to describe all the transactions that are carried out by the County.

Recommendations

- (i) Cash books should be maintained as required by the Government Financial Regulations and Procedures. All transactions should be recorded promptly and accurately.
- (ii) Bank reconciliations should be done on a regular basis, preferably at the end of every month. Reconciling items should be followed up and addressed expeditiously. The bank reconciliations should be reviewed by senior officers, who should append their signatures to confirm concurrence.
- (iii) No alterations should be done to the cash book. If any adjustments are deemed necessary then, they should be recorded accordingly instead of altering recorded transactions.
- (iv) Management should institute an investigation to identify the reasons for the alterations to the cash book. Any defalcations should be addressed in accordance with the law.

1.2 Un-surrendered Imprest and Other Related Issues

Examination of imprest records indicated that there was no proper recording of imprest. In some instances the imprests were not issued as per laid down guidelines of issuance of imprest:

- (i) The Imprest register was not updated
- (ii) Rampant issue of multiple imprest without surrender of the previous imprest held
- (iii) Imprest issued without approval in some instances
- (iv) Imprest amounting to Kshs.46,963,196.00 which was due for surrender remained un-surrendered as at 15th August 2014

This is contrary to Article 201(d) of the constitution of Kenya which stipulates that public money shall be used in a prudent and responsible way.

It is also contrary to Paragraph 104(1) of the Public Finance Management Act 2012, which states that subject to the Constitution, a County Treasurer shall monitor evaluate and oversee the management of public finances and economic affairs of the County Government ensuring proper management and control and accounting for finances of the county government and its entities in order to promote efficient and effective use of the county's budgetary allocations.

Further, it also contravenes Public Finance Management Act, 2012 paragraph 147 provides for the role of the accounting officer as among other things promoting and enforcing transparency effective management and accountability with regard to the use of finances.

1.2.1 Machakos Level Five Hospital

Examination of the hospital imprest records showed an outstanding imprest amounting to Kshs.5,769,800 which was due for surrender but had not been surrendered. This is contrary to Government Financial Regulations and Procedures on imprests, which requires that the imprest is surrendered within 48 hours after returning to duty station.

Recommendations

- (i) Management should take disciplinary action on the officers who are still holding imprests that were issued to them and are due for but not surrendered.
- (ii) All imprests should be accounted for and surrendered with the necessary documentation and as it falls due. Failure to which the full amount should be recovered from the imprest holder.

2.0 NON –CURRENT ASSETS

2.1 Purchase of Assets

The County Government procured the above vehicles and machinery at a cost of Kshs.219,415,091. Review of records available revealed the following weaknesses.

(a) Motor vehicles procured

It was noted that during the period under review the County Government procured one hundred and forty (140) units of Nissan Tiida, thirty four (34) units of Subaru Outback, two (2) Land Cruisers and one (1) Prado all at a cost of Kshs.32,855,000. It is not clear how the need for the vehicles was identified and how the vehicles were to be utilised. It was indicated that the supporting documents; which included procurement and ownership documents had been taken away by the Ethics and Anti-Corruption Commission. No copies were availed by the County Government. Consequently, the integrity of the procurement process could not be ascertained.

Recommendations

- (i) The County Government should as a matter of urgency identify and take into custody all vehicles due to it from both the defunct councils and the National Government for the devolved functions.
- (ii) The logbooks should also be transferred to the name of the County Government where necessary.
- (iii) Proper needs analysis should be carried out to determine the number of vehicles required by the County. Unnecessary vehicles could be disposed of.
- (iv) Proper records of motor vehicles should be maintained at all times.

(b) Ambulances

The County Government procured seventy (70) units of ambulances at a total cost of Kshs.145,348,000. The following was observed:

- The ambulances were second hand and the evaluators had indicated that they were not competent enough to evaluate the value of the ambulances. Consequently, although Kshs.145,348,000 was paid for the ambulances, their actual value could not be ascertained.
- It was further noted that no needs assessment had been done before the ambulances were procured. Consequently, it is not clear how the number of seventy (70) ambulances had been determined.
- No distribution schedules were provided. Consequently, it is not clear where the ambulances are situated.
- The log books were not produced for audit review, available information indicated that the vehicles are in civilian number plates and are registered in the name of Pharmatec Limited. It is not clear how the ambulances, which were meant to belong to the County Government, could be registered in the name of a private company. It is also not clear how much has been paid to the private company and any pending bills in respect of the ambulances.

Recommendations

- (i) The ambulances should be located and allocated to specific health facilities. This will avoid cases where ambulances are either idle or alternatively moving aimlessly looking for an emergency.

- (ii) Seventy (70) ambulances for Machakos County appear on the higher side. A needs analysis should be carried out to determine their value vis a vis the inputs.
- (iii) The County should have the ambulances registered in its name to avoid misuse by third parties. These should also be registered in Governments official number plates to avoid misuse.
- (iv) Work tickets should be introduced immediately to avoid misuse and aid in management of the ambulances.

(c) Tractors

The County Government also procured thirty two (32) units of Mersey Ferguson tractors to assist in farming at a cost of Kshs.41,212,091. However, the following weaknesses were observed:

- No baseline survey had been carried out before the procurement of the tractors. Their need and usefulness to the County Government could not be determined as no needs assessment had been carried out before procurement.
- No details were provided on the procurement process of the tractors. Consequently, their value and age could not be determined as supporting documents were not availed.
- No work tickets were availed for audit scrutiny to indicate how the tractors were being utilized. Consequently, it was difficult to monitor the use of the tractors in absence of work tickets.

Recommendations

- (i) Ownership documents should be retained to confirm ownership of the tractors by the County Government.
- (ii) All documents on procurement of the tractors should be properly maintained for future reference and review.
- (iii) The usefulness of these tractors to the County Government should be reviewed with a view to ensuring that their continued maintenance by the County is economically viable and a value for money to the County.
- (iv) In case the tractors are found viable, then the use of work tickets and other fuel and repairs and maintenance records should be kept for proper management of the tractors.

(d) Police Vehicles

The County had planned to enter into Memorandum of Understanding (MoU) with Kenya Police Service to provide them with 91 Nissan Tiida. The following has however been observed:

- The MoU has not yet been signed between the County Government and the Kenya Police Service.
- The police took possession of the ninety one (91) Nissan Tiidas.
- The vehicles do not have any work tickets.

- The vehicles can be fueled by either the County Government or the Police thus creating a loophole for fraudulent activities where both parties can claim to have fueled the vehicles.

Recommendations

- (i) The vehicles provided to the police should be monitored for control of usage and maintenance.
- (ii) Since the duty of security provision is primarily the National Government, the purpose for which the ninety one (91) vehicles were provided to the police should be clearly stated.
- (iii) The arrangement where both the police and the County Government can refuel the vehicles should be reviewed to ensure that the County is getting value for its money. The terms of engagement should be very clear to avoid misuse of the vehicles and misuse of public funds by unscrupulous county staff or police officers.
- (iv) The County Government should maintain work tickets for all vehicles indicated to belong to it.

2.2 County Residential Houses

As previously reported in the Special Audit Report for the period ended 30 June 2013, in 1974 the National Housing Corporation developed a Housing Scheme, Depot Housing Scheme on Machakos Municipality Block 1/197-214 on behalf of Masaku County Council. Information available from the National Housing Corporation indicates that the Scheme was developed by loan to the Council which was subsequently paid for in full. However, the entire 25 units of houses were later taken over by the National Government under the Ministry of Housing and Urban Development and allocated to Civil Servants who have in effect been paying rent to the Ministry.

Recommendation

The County Government should engage the National Government to resolve the ownership dispute of the Depot Housing Scheme between the two levels of Government to ensure harmony between the current occupants of the house and the County Government.

2.3 Immovable Assets

As reported in the previous special audit report, an undetermined number of land parcels and buildings belonging to the County valued at Kshs.961,451,472 did not have title deeds and were prone to grabbing or encroachment by unscrupulous individuals who might be privy to this fact.

Further, Records available show that 18 pieces of land of various sizes recognized by the then Municipal Council of Mavoko as public utilities in Syokimau and Numerical area of Mavoko Sub County had been sub-divided and allocated to individuals and institutions under unexplained circumstances, a physical check revealed that most of the land had been developed privately and others fenced off while a few were vacant.

Recommendation

The County should follow up on title deeds to secure ownership of these properties and avail documents for the sub-division of the 18 parcels of land allocated to the individuals/private developers if any, and also repossess the same since these parcels had been irregularly allocated.

2.4 Work in progress

During the transition process there were several projects in various stages of progress in each of the defunct Local Authorities whose completion was not budgeted for in the County budget for the period 2013-2014 totalling to Kshs.12,542,292. It has not been established whether the projects have been incorporated in the county budget and development plan. There is the risk of these projects in various stages of completion not being completed.

Recommendation

The County Government should make budgetary provision for the completion of the projects. Further, the County Executive should establish the funding of projects and how the funds were utilized prior to transition and handover of the projects.

3.0 CURRENT LIABILITIES

3.1 Pending Bills

Examination of the county records showed that there were pending bills amounting to Kshs.712,863,900 as at 30 June, 2014 relating to the following departments:-

Department	Amount Kshs.
Transport	385,715,812
Water	234,598,667
ICT	23,016,706
Health	25,700,153
Education	13,488,562
Decentralized Units	11,000,000
Trade	4,343,000
Lands	<u>15,000,000</u>
Total	<u>712,862,900</u>

This is contrary to prudent financial management as the County could easily find itself in a precarious situation if these pending bills are not paid within the time required.

Recommendations

- (i) The County Government should establish the origin of these bills and make arrangements to settle the same.

- (ii) Expenditure should be incurred prudently to avoid situations where the County could get entangled in pending bills, which may be difficult to settle.

4.0 BUDGETARY CONTROL AND PERFORMANCE

The County Government prepared and approved a budget of Kshs.4,159,450,000 which included Kshs.793,950,000 for the county assembly through Machakos County Appropriation Act 2013. The appropriations included kshs.77,450,000 for development expenditure and Kshs.716, 500,000 for recurrent expenditure. However expenditure details show that the county assembly received ksh.745,785,095.70 whose breakdown has not been given on both recurrent and development. The allocation was under funded by Kshs.48,164,904.30.

Evidence available show that the Assembly spent an amount of Kshs.753,102,788.68, which led to a deficit of Kshs.7,317,692,98, whose some was not established.

Recommendations

- (i) Accounting records between the County Government and the County Assembly should be enhanced.
- (ii) Proper monitoring of budget and expenditure between the two arms of County Government should be streamlined.

5.0 EXPENDITURE

5.1 Procurement of Goods and services

Examination of procurement records revealed the following anomalies:

- (i) There was irregular splitting of contracts to allow use of Quotations during the year.

(a) Procurement of Equipment

Department	Amount (Kshs)
Public Service, Labour and ICT	19,120,230
Office of the Governor and Deputy Governor	5,987,100
Finance and Economic Planning	<u>1,554,200</u>
Total	<u>26,661,530</u>

(b) Procurement of Furniture

Department	Amount (Kshs)
Office of the Governor and Deputy Governor	9,493,100
Public Service, Labour and ICT	<u>6,493,100</u>
Total	<u>16,348,647</u>

- (ii) Item description on request for quotations did not give specific technical requirements as required by Section 34 of the Public Procurement and Disposal Act, 2005 (eg two tables, sofa set, etc).

Some of the items are as follows;

	Item	Quantity	Supplier	Quotation Amount (Kshs.)
(a)	HP Pro Desktop	4	Integrated Solutions Ltd	356,000
(b)	HP Laptops	4	Integrated Solutions Ltd	420,000
(b)	Smart Phones	3	Integrated Solutions Ltd	285,000
(d)	HP Laptops	25	Santel Computer Link Services	1,875,000

The following were also noted:-

- (a) There was no inspection and acceptance reports to acknowledge receipt of goods received.
- (b) There was no clear policy on who was to get goods procured such as the lap tops and smart phones
- (c) There was no non-current assets register to confirm that furniture bought is recorded as County's assets.

This is contrary to the Public Procurement and Disposals Act, 2005 and its Regulations of 2006, which states that the thresholds matrix for services which is subject to open tender as not exceeding an expenditure of Kshs.3 million. Further, the Act stipulates that Public entities should source goods and services competitively and Section 30 (1) of the Public Procurement and Disposal Act, 2005, provides that, no procuring entity may structure procurement as two or more procurements for the purpose of avoiding the use of a procurement procedure.

Recommendation

The County management should adhere to the Public Procurement and Disposal Act, 2005 and regulations which govern procedures for procurement in public entities.

5.2 Lands, Energy, Environment & Natural Resources Projects

(a) Funding of REA Projects in Machakos County

The department of Lands, Energy, and Environment & Natural Resources made two payments to the Kenya Rural Electrification Authority (REA) totalling Kshs.30,000,000 for funding of REA projects in Machakos County, however the following anomalies were noted:-

- (i) There was no list or breakdown of areas or places that were to be connected with electricity.
- (ii) It was also apparent that there were no work plans for funds paid to REA.
- (iii) Rural electrification programme is a National Government funded project to connect electricity to schools and market centers. It was therefore not clear without a proper laid out work plan/programme to determine what portion was being funded by the County Government.

Recommendation

The County government should confine itself to roles that are defined and leave activities meant for the National Government.

(b) Supply of 400 watts floodlights

The County Government through the department of lands energy and environment Contracted Gallops Products Ltd of P.O. Box 3163-00200 Nairobi to Supply (13,000) 400 watts flood lights at a unit price of Kshs.13,800 which translates to Kshs.179,400,000 on 6 June 2014. The supplier invoiced for 2000 flood lights delivered on 10 June 2014 vide LPO No.2205106 dated on 6 June 2014 totalling Kshs.27,600,000. As at the time of audit, the supplier had not been paid. It was therefore not clear whether the department had enough funds to commit such a huge project.

Recommendation

There should be clear budget allocation and resultant expenditure and payments made in time.

5.3 Kyumbi turn-off to Machakos Town Street Lighting

The street lighting project from Kyumbi turnoff to Machakos town was carried out by the Machakos County Government under the Directorate of County Image. However, the cost analysis was not available to determine the total amount incurred on this contract

from inception to the end. It was also not clear how the following materials were supplied:

- 300 poles
- Cables for connecting power
- Floodlights fitted on the poles
- How many staff and casuals were engaged in the exercise
- Allowances paid

The only available information was a direct purchase 10 poles from M/s Ekalakala Construction Co. of Kshs.200,000 invoiced on 16-9-2013 vide LPO number 2024799 issued on 17-9-2013. The direct purchase was in itself contrary to Procurement procedures. Consequently, it was therefore not possible to ascertain the total cost incurred on the project.

Recommendations

Documentation on projects should be maintained at all times for posterity.

5.4 Construction of the Governor's Office

The Ministry of Transport, Roads and Public Works and Housing contracted Kamwele Timber and General Suppliers to supply 5000 tons of hardcore at Kshs.7.4 millions for construction of the Governor's Office vide letter from Chief Officer dated 27 August 2013 and LPO number 2106257 dated 11-12-2013. An additional 1000 tons of hardcore was supplied by Koma Hill Traders at a cost of Kshs.2,305,000 as per LPO No 2106260. A visit to the project site established that the project had stalled and Kshs.57,726,344.80 had been spent out of which Kshs.28,254,629.30 had been paid out. It was therefore not clear whether the project was properly planned and budgeted for.

Recommendation

The management should explain why this project stalled after having used the public funds. Further, the management should have budgetary plans before starting any projects and also be able to monitor the progress.

5.5 Road Marking of Kamulu to Koma Hill

The department contracted and paid Magic General Contractors for road marking between Kamulu and Koma Hill section at a total cost of Kshs.8,542,747 using a request for quotations instead of open tender as required by the Public Procurement and Disposal Act as this project was above the threshold matrix for quotations. No explanation was given as to why the department opted to use this method.

This is contrary to the Public Procurement and Disposals Act, 2005 and its Regulations of 2006 which stipulates that the procurement method to be used in procurement of services. Further Section 54 (2) of the Act, states the thresholds matrix for services which is subject to open tender for a minimum expenditure of Kshs.3 million. Further, the Act also states that a procuring public entity should source goods and services competitively.

Recommendation

The management should adhere to the Public Procurement and Disposal Act and other laws.

5.6 Tarmacking of Kithimani Makutano Ma Mwala Road (C100)

Examination of records on the tarmacking of Kithimani Makutano Ma Mwala Road (C100) revealed the following:

The road is 33 kilometers and construction was to be carried out by 11 contractors at a total cost of Kshs.568,700,009.04 as detailed below:

	Contractor	Contract Price (Kshs.)
1.	Lirona General Merchants	48,805,612.22
2.	Welldan Contractors	49,941,397.22
3.	Zoar General Contractors	48,222,531.30
4.	Mattan Construction Ltd	55,622,125.86
5.	Salan Company	51,438,770.00
6.	Wak Construction	49,978,223.23
7.	Gragab Agencies	48,706,285.24
8.	Sinoe Construction	56,360,124.36
9.	Sivad Contractors	56,850,783.36
10.	Ndaisi General Merchants	51,837,165.25
11.	Katsran Contractors Ltd	<u>50,936,991.00</u>
	Total	<u>568,700,009.04</u>

The following weaknesses were observed on the project:

- Feasibility study and detailed engineering design on the road were not carried out by the County Government, thus the decision to develop the road was not based on any quantitative economic criteria.
- The advertisement was made once in the Daily Nation of 14 January 2014, page 29 and in a monthly publication called The Anchor of January 2014 contrary to Section 54 (10) of the Public Procurement and Disposal Act, 2005.
- There was no procurement plan for the financial year 2013/2014 but the County Government still invited bids from eligible construction companies for road works for the upgrading of Makutano-Kithimani Road.

- In the contract documents there was a design typical cross section which was not adhered to in many sections of the road especially at lot 10 steep sections on the right hand side.
- The County Government opted for in-house supervision of construction works despite recommendations from the Director-General of KeNHA to procure the services of a Consulting Engineer to undertake the designs and supervise the construction of the Makutano-Kithimani Road since KeNHA had not allocated funds for such new projects.
- There were no checkers stationed at the various construction sites on the project. Ideally, the project would have required 99 checkers if every contractor had at least 3 working groups/gangs on each kilometer per lot. In the absence of the supervision, the team cannot claim to have effectively supervised all the 11 contractors.
- The County had not opened a separate bank account for an amount of Kshs.16,575,134.78, which was withheld by the County Government as retention money.
- There were no prohibitory signs or alternate means to curb heavy trucks from using the road which would lead to premature failure of the road. This would be a heavy cost to the taxpayers.
- By 14 October 2014, only four (4) contractors had substantially completed their works to the satisfaction of the Resident Engineer, while the rest seven (7) contractors had not completed the works and were still under the contractual agreement. It was indicated that some lots, whose number and value could not be determined as at the time of audit were taken over by the County Government. It was not clear how the costs of the lots taken over by the Government would be indemnified. It was also not clear whether the contractors whose lots had been taken over by the County Government would be paid the full contract price.
- The work was therefore not completed when the road was hurriedly commissioned and opened to traffic on 26 June 2014. The County Government should take remedial action promptly to address issues and concerns on safety, quality and worthiness of the Makutano Kithimani ma Mwala Road.

5.7 Department of Decentralized Units Urban Areas

(a) Purchase of Generators

Examination of payment vouchers revealed that the Department of Decentralized units procured and paid for one 17 KVA generator and six 9 KVA generators for Kshs.10,400,000 through quotations which was way above the threshold for quotations vide LPO number 2126014 from Gallops Products. Even though the tender committee issued a letter to the user department to use restrictive tendering in procuring the items there were no reasons given as to why restrictive tendering was to be used.

The Machakos County Government also procured a Cummins Power Generator with Automatic change over switch plus installation and commissioning at a cost of Kshs.9,257,776 which was also above the required threshold for quotations from Mac Motors vide LPO No 2128663.

No reason or explanation was given why the management decided not to comply with the law.

Recommendation

- (i) The management should adhere to existing laws on procurement.
- (ii) Management should also ensure that the county gets value for money.

(b) Irregular/Doubtful Procurement of Goods & Services

Examination of payments indicated that the Department of Decentralized units procured and paid for several goods and services amounting to Kshs.8,687,300 without maintaining requisite documents like:- requisitions, prequalification register, Quotation registers, Quotations, tender documents, signed contracts, inspection and acceptance reports, proper opening of Quotation and market surveys.

- (i) An amount of Kshs.1,293,000 was paid to a Company for cabling of Mwala Sub-County on 14 February 2014, no evidence was provided to show when the works were started and no inspection and acceptance reports were availed to ascertain completion of the works.
- (ii) An amount of Kshs.4,554,000 was paid to a Company for supply of furniture. There was no evidence to show that the goods were received.
- (iii) An amount of Kshs.2,840,300 was paid to a Company for supply of office equipment, there was no evidence that the goods were received.

Recommendation

- (i) Management should maintain complete records on procurement.
- (ii) Management should also understand that adherence to existing laws on procurement and financial management is not optional but a requirement of both the Constitution of Kenya and other legislation eg the Public Finance Management Act, 2012.

5.8 Agriculture

i) Purchase of Green houses

The County purchased 40 units of greenhouses. However, no distribution list was provided for audit purposes to indicate the location and beneficiaries of the green houses and how the beneficiaries were identified. Further, it was not established nor documented whether a baseline survey had been carried out to show the nature of crops to be planted and the nature of benefits to accrue from the project.

A contract dated 26 March 2014 for Kshs.42,500,000 had no technical evaluation. Further, no progress reports were available. There was also no indication of follow up to show whether the objectives of the projects were being met or not.

ii) Purchase of seeds (KDV4/KDV1 Maize Seeds)

The County Government of Machakos purchased maize seeds, (KDV4 and KDV1 maize seeds) from Dryland Seed Ltd at a cost of Kshs.8,385,080 on 12 March, 2014. However, it was observed that there was no list provided to show the distribution of the seeds to farmers. Further, no evidence was provided to show the resulting yields or harvests from the farmers and how the farmers benefitted.

Consequently the propriety of the above expenditure, all totalling Kshs.50,885,080 cannot be ascertained.

Recommendation

- (i) Management should maintain proper books of accounts as envisaged by the Public Finance Management Act, 2012 and the Government Financial Regulations and Procedures.
- (ii) Compliance with existing laws is not optional but a requirement.

6.0 ICT INTERNAL CONTROL ENVIRONMENT

Delivering stakeholder value requires good governance and management of information and technology (IT) assets which enhance reliable, timely and secure information processing. However, the County Executive has not formulated a formally documented and approved process to manage system upgrades or changes made to all financial information systems

Recommendation

Management should institute proper IT controls to address the identified weaknesses.



Edward R.O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

19 May 2015