

**REPUBLIC OF KENYA**



**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL OPERATIONS OF  
TRANS NZOIA  
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 TRANS NZOIA COUNTY EXECUTIVE FOR THE PERIOD 1 JULY 2013 TO 30 JUNE 2014**

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## **EXECUTIVE SUMMARY**

### **Introduction**

The Auditor General has the mandate to audit and report on the accounts of the National and County Governments under Article 229 of the Constitution and the Public Audit Act, 2003. Further the Constitution and Section 107 of Public Finance Management Act, 2012 requires the County Treasury to adhere to the principles of public finance.

### **Audit Objectives**

The objectives of the audit was to ensure existence of internal controls for proper accountability of public resources, confirm that procurement of goods, works and services is done in accordance with the Public Procurement and Disposal Act, 2005 and related regulations, and that public funds have been utilized effectively and in accordance with the law.

### **Terms of Reference**

The terms of reference set for the audit include verification and confirmation of transactions in respect to but not limited to the following areas:

- Budgetary controls and performance
- Annual operational / Activity plans
- Procurement of goods, works and services
- Allowances including travelling and accommodation expenses for local and foreign trips.
- Motor vehicle running expenses
- Consultancy services
- Imprests and advances
- Cash and bank balances
- Human Resource Records
- IT Environment
- Non-current assets
- Debtors
- Creditors

### **Audit Findings**

#### **1.0 Outstanding Imprests**

Audit review of imprest records showed that as at 30 June 2014, imprests totalling Kshs.64,151,407 which ought to have been surrendered by 30 June 2014 were still outstanding. It was also noted that some officers were holding more than one imprest with one officer holding 54 imprests totalling Kshs.6,214,872 contrary to Section 5.6.4 of the Government Financial Regulations and Procedures.

Consequently, the purpose for which the imprests were issued were not indicated and therefore could not confirm the purpose of the imprests.

## **2.0 Payment of Creditors taken over from Defunct Local Authorities**

Examination of expenditure records revealed that the County Government of Trans Nzoia paid creditors totalling to Kshs.45,168,329 taken over from the defunct Municipal Council of Kitale and County Council of Nzoia. However, the same had not been validated by the Transition Authority as required by the Transition to Devolved Government Act, 2012. Consequently, the legality and propriety of the expenditure of Kshs.45,168,329 could not be confirmed as at 30 June 2014.

## **3.0 Procurement of Goods and Services**

### **3.1 Hire of Graders**

The County Government of Trans Nzoia made payments totalling Kshs.29,080,000 to various firms in respect of hire of graders. According to the local purchase orders and invoices supporting the payments, the hire rate is indicated as Kshs.46,560 per day. However, no documentation has been provided for audit review to show how the suppliers of the graders were identified and the daily charge rate of Kshs.46,560 determined. Further, the details of the graders including the registration numbers and the respective roads worked on have not been availed for audit review.

### **3.2 Bush Clearing and Roads Grading**

Audit review of expenditure records showed that payments totalling to Kshs.129,277,000 were made to various firms in respect of bush clearing, heavy roads grading and other road maintenance in various County Wards. Two other payments totalling Kshs.9,394,800 were made to two firms in respect of marking of roads within Kitale town.

However, in all cases, there were no documents to support how the firms were identified and the contract sums determined. In addition, the list of roads that were to be graded, road contract sums allocated to each contractor and the necessary supporting documents were not availed for audit review.

### **3.3 Cash Purchases**

During the year under review, examination of payment records revealed that the County Government made cash purchases totalling Kshs.31,072,113 for goods and services whose values were more than the Class A entities procurement low-value maximum allowable cash purchase threshold of Kshs.30,000 per item. The payments were in respect of the following

<b>Category of goods or services</b>	<b>Total payment (Kshs)</b>
Stationery	8,938,976
Computer Softwares	5,092,399
Unblocking of sewerage	8,826,828
Refuse collection	3,440,930
Assorted items	<u>4,772,980</u>
	<b><u>31,072,113</u></b>

In addition, no records were availed for audit review to show that the goods and services procured and paid for were actually received and provided respectively as per the terms of the contracts.

### **3.4 Purchase of Land**

The County Government of Trans Nzoia entered into land purchase agreement for 10 acres of land with an individual for Kshs.23million. The land was said to be for official residence of the Governor. Subsequently, a payment of Kshs.11,500,000 being 50% of purchase price was made on 19 May 2014 vide payment voucher No.03451. However, there was no documentary evidence to confirm that the tender for purchase of land was advertised as required by the Public Procurement and Disposal Act, 2005 and the related regulations of 2006 and 2013. In addition, no land valuation report was provided for audit review.

Consequently, it has not been clear as to how the land was identified and the purchase price determined.

### **3.5 Expenditure on Motor Vehicle Insurance**

Review of the documents availed indicated that amounts totalling Kshs13,289,505 was paid to various insurance firms in respect of insurance premiums for county government vehicles, motor cycles and graders. However, there was no documentary evidence to confirm that the insurance providers were identified through a competitive bidding process as required by the Public Procurement and Disposal Act, 2005 and the related regulations. In addition, there were no valuation reports to support the values of the insured vehicles and it was therefore not possible to confirm how the premiums paid were determined. Further, the insurance policy documents were not provided for audit review. Consequently, the propriety of the premiums paid could not be confirmed.

### **3.6 Purchase of Uniforms**

A review of payment records showed that an amount of Kshs.2,356,150 was made to a local firm for supply of staff uniforms on 28 October 2013 vide payment voucher number 85 and cheque number 403. However, according to stores and delivery records, uniforms worth Kshs.652,400 were supplied to leave uniforms worth Kshs.1,703,750 not supplied as at 31 January 2015. No reason has been given for making full payment for goods that had not been supplied.

### **3.7 Irregular Expenditure on Fuel**

A review of payment records revealed that payments totaling Kshs.4,867,830 were made to two oil dealers between January and May 2014 for supply of fuel against cash sale receipts.

However, there was no evidence that the fuel paid for was supplied, received and recorded in the stores records and properly utilized. Further, the payment vouchers and the cash book indicated that the payments were made in January and May 2014 although some of the cash sale receipts supporting the payments date as far back as 30 June 2013.

In addition no documentation has been provided to show how the firms were identified and the prices charged determined. Consequently, the propriety of the expenditure of Kshs.4,867,830 cannot be confirmed.

### **3.8 Fuel Issued to Private Cars**

Audit review of fuel records including fuel register, detailed orders, invoices and statement of accounts from the fuel suppliers revealed that fuel worth Kshs.4,174,818 was drawn from a local petrol station by vehicles that were not among vehicles owned by the County Government and no documentation was provided to show the ownership and whether they were in use by the County Government.

In addition the registration numbers of some motor vehicles were not complete or incorrect. In the absence of the ownership records, lease rental records and confirmation as to whether the vehicles were in use by the County Government, it was not possible to confirm that fuel worth Kshs.4,174,818 was used for public good.

### **4.0 Procurement of Consultancy Services for Preparation of County Integrated Plans**

The County Government of Trans Nzoia entered into agreement with a consultant firm on 12 June 2013 for the preparation of county integrated plans at a contract sum of US\$.864,401.84 (Kshs.73,897,713) at exchange rate of Kshs.85.49 to the dollar. The integrated plans included; revenue study plan, integrated development plan, strategic plan, human resource plan, urban/spatial plan and sector plan. The contract period was for twelve (12) months effective 26 June 2013. However, it was not clear how the consulting firm was identified and the contract sum of US\$864,401.84 determined as no documentary evidence was seen to confirm that bidding process was done through a competitive and transparent manner.

According to the payment schedule of the special condition of the contract, the payments were to be made as below:

- 30% on submission of inception report
- 40% on submission of approved draft report
- 10% on submission of final draft report and
- 20% on submission of the final assignment.

However, a payment of Kshs.10million (US\$117,647.05 at exchange rate of Kshs.85 to the US dollar) was made to the consultant on 12 July 2013 explained to be 14% of the contact sum, yet no inception report had been submitted as required by the provisions of the contract. A further payment of Kshs.18,000,000 was made on 30 June 2014.

The management has not provided an explanation as to why the consultancy services were not procured through competitive bidding process as required by the Public

Procurement and Disposal Act, 2005 and related regulations. In addition, no reason or explanation has been provided for making payments while the consultant has not submitted any report as required by the contract agreement.

Further, there is no evidence that the County Budget and Economic Forum was constituted as required by the Public Finance Management Act, 2012 before engaging the consultant to prepare the county integrated development plans.

## **5.0 Cash and Bank Balances**

### **5.1 Cash Books**

The county government operated six (6) bank accounts, three with two Commercial Banks and the other three with the Central Bank of Kenya. It was however, noted that the cash books for the Imprest Account and Revenue Collections Account had been updated up to 30 April 2014 while the Operations Account maintained with the Commercial Banks was not updated since July 2013 as required by Section 5.9 and 5.11 of the Government Financial Regulations and Procedures. Further the cashbooks for the three accounts with Central Bank of Kenya; that is Recurrent, Development and Revenue were not provided for audit review while the County Executive also failed to provide bank reconciliation statements for audit review.

In the absence of proper and up to date cashbooks and non-preparation of bank reconciliation statements, it may not be possible to detect errors and incidences of improprieties if they occurred.

### **5.2 Bank Overdraft**

The County Government continued to make payments out of the Imprest account and Operations account without sufficient funds which resulted into the accounts being overdrawn on various dates between 1 September 2013 and 21 February 2014 on Imprest Account and between 2 September 2013 and 7 May 2014 on Operations Account. The overdraft on Imprest account which stood at Kshs 18,892,116 on 12 September 2014 attracted interest totalling Kshs.570,973 as at 30 June 2014 while overdraft on Operations account stood at Kshs.100,218,603 on 6 May 2014 attracting interest totalling Kshs.411,322 as at 30 June 2014. The payment of interest totalling Kshs.982,295 therefore constitutes a nugatory expenditure and could have been avoided with prudent financial management practices. No reason was provided for securing overdraft facilities.

In addition, the authority from the County Assembly to allow the County Executive to borrow or the set limit of the borrowing as required by Section 141 and 142 of the Public Finance Management Act, 2012 was not provided for audit review.

### **5.3 Cash Withdrawals**

A review of the cash book and the related records revealed that during the month of June 2014, amounts totaling Kshs.72,316,862.60 was withdrawn from the KCB-Operations Account No.1140772694. However, no documentation has been provided to show how the cash withdrawn was utilized.



## **6.0 Un-Vouched Expenditure**

Audit review of cash book for KCB Operations account showed that payments totaling Kshs.23,812,029.30 were made to three firms and two financial institutions, but the payment vouchers together with the supporting documents were not provided for audit. It was therefore not confirmed what the payments were for. Consequently, the propriety of the expenditure of Kshs.23,812,929.30 could not be confirmed.



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

**Nairobi**

**25 May 2015**

# **DETAILED REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL OPERATIONS OF TRANS NZOIA COUNTY EXECUTIVE FOR THE PERIOD 1 JULY 2013 TO 30 JUNE 2014**

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## **DETAILED AUDIT FINDINGS**

### **1.0 Outstanding Imprests**

Audit review of imprest records showed that as at 30 June 2014, imprests totalling Kshs.64,151,407 which ought to have been surrendered by 30 June 2014 were still outstanding. It was also noted that some officers were holding more than one imprest with one officer holding 54 imprests totalling Kshs.6,214,872 contrary to Section 5.6.4 of the Government Financial Regulations and Procedures.

Consequently, the purpose for which the imprests were issued were not indicated and therefore could not confirm the purpose of the imprests.

#### **Recommendation**

The management should ensure that imprests are only issued for official duties and surrendered in accordance with the Government financial regulations and procedures governing imprests. Management should also ensure that imprests that are not accounted for in time are recovered from the officers concerned in full in accordance with the regulations governing imprests.

### **2.0 Payment of Creditors Taken Over From Defunct Local Authorities**

Examination of expenditure records revealed that the County Government of Trans Nzoia paid creditors totalling Kshs.45,168,329 taken over from the defunct Municipal Council of Kitale and County Council of Nzoia. However, there was no proof that the same had been validated by the Transition Authority as required by the Transition to Devolved Government Act, 2012. Consequently, the legality and propriety of the expenditure of Kshs.45,168,329 could not be confirmed as at 30 June 2014.

#### **Recommendation**

The management should ensure that creditors taken over from the defunct Local Authorities are verified and validated by the Transition Authority before they are paid as required by the Transition to Devolved Government Act, 2012.

### **3.0 Procurement of Goods and Services**

#### **3.1 Hire of Graders**

The County Government of Trans Nzoia made payments totalling Kshs.29,080,000 to various firms in respect of hire of graders. According to the local purchase orders and invoices supporting the payments, the hire rate is indicated as Kshs.46,560 per day. However, no documentation has been provided for audit review to show how the suppliers of the graders were identified and the daily charge rate of Kshs.46,560

determined. Further, the details of the graders including the registration numbers and the respective roads worked on have not been availed for audit review.

### **Recommendation**

The management should ensure that procurement of goods and services is done in accordance with the provisions of the Public Procurement and Disposal Act, 2005 and that payments are made for goods/services that have been confirmed received. Further, the management should ensure that all records for procurement of goods and services are availed for audit review failure to which the respective officers are held accountable and surcharged for expenditure on goods and services that has not been supported with documentary evidence.

### **3.2 Bush Clearing and Roads Grading**

Audit review of expenditure records showed that payments totalling to Kshs.129,277,002 were made to various firms in respect of bush clearing, heavy roads grading and other road maintenance in various County Wards. Two other payments totalling Kshs.9,394,800 were made to two firms, M/s HAC Enterprises (Kshs.4,094,000) and M/s Lyavo Enterprises Ltd (Kshs 5,300,800) in respect of marking of roads within Kitale town.

However, in all cases, there were no documents to support how the firms were identified and the contract sums determined. In addition, the list of roads that were to be graded, road contract sums allocated to each contractor and the necessary supporting documents were not availed for audit review.

### **Recommendation**

The management should ensure that procurement of goods and services is done in accordance with the provisions of the Public Procurement and Disposal Act, 2005 and that payments are made for goods/services that have been confirmed received.

### **3.3 Cash Purchases**

During the year under review, examination of payment records revealed that the County Government made cash purchases totalling Kshs.31,072,113 as summarised below for goods and services whose values were more than the Class A entities procurement low-value maximum allowable cash purchase threshold of Kshs.30,000 per item. In addition, no records were availed for audit review to show that the goods and services procured and paid for were actually received and provided respectively as per the terms of the contracts.

<b>Category of goods or services</b>	<b>Total payment (Kshs)</b>
Stationery	8,938,976
Computer Softwares	5,092,399
Unblocking of sewerage	8,826,828
Refuse collection	3,440,930
Assorted items	<u>4,772,980</u>
	<b><u>31,072,113</u></b>

## **Recommendation**

The management should ensure that procurement of goods and services is done in accordance with the provisions of the Public Procurement and Disposal Act, 2005 and that payments are made for goods/services that have been confirmed received. Further, the management should ensure that all records for procurement of goods and services are availed for audit review failure to which the respective officers are held accountable and surcharged for expenditure on goods and services that has not been supported with documentary evidence.

### **3.4 Purchase of Land**

The County Government of Trans Nzoia entered into land purchase agreement for 10 acres of land with an individual based in Nairobi for Kshs.23million. The land was said to be for official residence of the Governor. Subsequently, a payment of Kshs.11,500,000 being 50% of purchase price was made on 19 May 2014 vide payment voucher No.03451. However, there was no documentary evidence to confirm that the tender for purchase of land was advertised as required by the Public Procurement and Disposal Act, 2005 and the related regulations of 2006 and 2013. In addition, no land valuation report was provided for audit review.

Consequently, it has not been clear as to how the land was identified and the purchase price determined.

### **3.5 Purchase of Uniforms**

A review of payment records showed that an amount of Kshs.2,356,150 was made to a company for supply of staff uniforms on 28 October 2013 vide payment voucher number 85 and cheque number 403. However, according to stores and delivery records, uniforms worth Kshs.652,400 were supplied to leave uniforms worth Kshs.1,703,750 not supplied as at 31 January 2015. No reason has been given for making full payment for goods that had not been supplied.

## **Recommendation**

The management should ensure that procurement of goods and services is done in accordance with the provisions of the Public Procurement and Disposal Act, 2005 and that payments are made for goods/services that have been confirmed received. Further, the management should ensure that all records for procurement of goods and services are availed for audit review failure to which the respective officers are held accountable and surcharged for expenditure on goods and services that has not been supported with documentary evidence.

### **3.6 Motor Vehicle Expenses**

#### **3.6.1 Expenditure on Motor Vehicle Insurance**

Review of the documents availed indicated that an amount totalling Kshs.13,289,505 was paid to various insurance firms in respect of insurance premiums for County Government vehicles, motor cycles and graders. However, there was no documentary evidence to confirm that the insurance providers were identified through a competitive bidding process as required by the Public Procurement and Disposal Act, 2005 and the related regulations. In addition, there were no valuation reports to support the values of the insured vehicles and it was therefore not possible to confirm how the premiums paid were determined. Further, the insurance policy documents were not provided for audit review. Consequently, the propriety of the premiums paid could not be confirmed.

#### **Recommendation**

The management should ensure that the procurement of goods and services is done in a transparent and competitive manner as required by the Public Procurement and Disposal Act, 2005 and related regulations. The goods and services must be confirmed to have been received before payment is made. Further, the management should ensure that all records for procurement of goods and services are availed for audit review failure to which the respective officers are held accountable and surcharged for expenditure on goods and services that has not been supported with documentary evidence.

#### **3.6.2 Irregular payment for supply of Fuel**

A review of payment records revealed that payments totaling Kshs.4,867,830 were made to two oil dealers between January and May 2014 for supply of fuel against cash sale receipts. The payments were made in January and May 2014 while some of the cash sale receipts supporting the payments date as far back as 30 June 2013.

There was however no evidence that the fuel paid for was supplied, received and recorded in the stores records and properly utilized. In addition no documentation has been provided to show how the firms were identified and the prices charged determined. Consequently, the propriety of the expenditure of Kshs.4,867,830 cannot be confirmed.

#### **3.6.3 Fuel Issued to Privately Owned Cars**

Audit review of fuel records including fuel register, detailed orders, invoices and statement of accounts from the fuel suppliers revealed that fuel worth Kshs.4,174,818 was drawn from a Petrol Station by vehicles that were not among vehicles owned by the County Government and no documentation was provided to show the ownership and whether they were in use by the County Government.

In addition the registration numbers of some motor vehicles were not complete or incorrect. In the absence of the ownership records, lease rental records and

confirmation as to whether the vehicles were in use by the County Government, it was not possible to confirm that fuel worth Kshs.4,174,818 was used for public good.

### **Recommendation**

The management should ensure that procurement of goods and services are in accordance with the Public Procurement and Disposal Act, 2005 and the related Regulations of 2006 and 2013. In addition, management should ensure that proper fuel records are maintained and that fuel is only issued for official use. The amounts settled through cash sales should also be investigated for double payment and recovery is made from the respective officers. Further, the management should ensure that all records for procurement of goods and services are available for audit review failure to which the respective officers are held accountable and surcharged for expenditure on goods and services that has not been supported with documentary evidence.

#### **4.0 Procurement of Consultancy Services for Preparation of County Integrated Plans**

The County Government of Trans Nzoia entered into agreement with a consultant firm on 12 June 2013 for the preparation of county integrated plans at a contract sum of US\$.864,401.84 (Kshs.73,897,713) at exchange rate of Kshs.85.49 to the dollar. The integrated plans included; revenue study plan, integrated development plan, strategic plan, human resource plan, urban/spatial plan and sector plan. The contract period was for twelve (12) months effective 26 June 2013. However, it was not clear how the consulting firm was identified and the contract sum of US\$.864,401.84 determined as no documentary evidence was seen to confirm that bidding process was done through a competitive and transparent manner.

According to the payment schedule of the special condition of the contract, the payments were to be made as below:

- 30% on submission of inception report
- 40% on submission of approved draft report
- 10% on submission of final draft report and
- 20% on submission of the final assignment.

However, a payment of Kshs.10million (US\$117,647.05 at exchange rate of Kshs.85 to the US dollar) was made to the consultant on 12 July 2013 explained to be 14% of the contact sum, yet no inception report had been submitted as required by the provisions of the contract. A further payment of Kshs.18,000,000 was made on 30 June 2014 vide payment voucher No.04269.

The management has not provided an explanation as to why the consultancy services were not procured through competitive bidding process as required by the Public Procurement and Disposal Act, 2005 and related regulations. In addition, no reason or explanation has been provided for making payments while the consultant has not submitted any report as required by the contract agreement.

Further, there is no evidence that the County Budget and Economic Forum was constituted as required by the Public Finance Management Act, 2012 before engaging the consultant to prepare the county integrated development plans.

## **Recommendation**

The management should ensure that the provision of the Public Procurement and Disposal Act, 2005 and the related regulations of 2006 and 2013 are adhered to in the procurement of goods and services. Also payments should be properly supported and in accordance with the signed contract and the Public Finance Management Act, 2012 failure to which the respective officer is surcharged for the amount not supported with documentary evidence.

## **5.0 Cash and Bank Balances**

### **5.1 Cash Books**

The County Government operated six (6) bank accounts, three with two Commercial Banks and the other three with the Central Bank of Kenya. It was however, noted that the cash books for the Imprest Account and Revenue Collections Account had only been updated up to 30 April 2014 while the Operations Account maintained with the Commercial Banks was not updated since July 2013 as required by Section 5.9 and 5.11 of the Government Financial Regulations and Procedures. Further the cashbooks for the three accounts with Central Bank of Kenya; that is Recurrent, Development and Revenue were not provided for audit review while the County Executive also failed to provide bank reconciliation statements for audit review.

In the absence of proper and up to date cashbooks and non-preparation of bank reconciliation statements, it may not be possible to detect errors and incidences of improprieties if they occurred.

## **Recommendation**

The management should ensure that cash books are maintained and bank reconciliation statements prepared on monthly basis as required by the government financial regulations and procedures.

### **5.2 Bank Overdraft**

The County Government continued to make payments out of the Imprest account and Operations account without sufficient funds which resulted into the accounts being overdrawn on various dates between 1 September 2013 and 21 February 2014 on Imprest Account and between 2 September 2013 and 7 May 2014 on Operations Account. The overdraft on Imprest account which stood at Kshs. 18,892,116 on 12 September 2014 attracted interest totalling Kshs.570,973 as at 30 June 2014 while overdraft on Operations account stood at Kshs.100,218,603 on 6 May 2014 attracting interest totalling Kshs.411,322 as at 30 June 2014. The payment of interest totalling Kshs.982,295 therefore constitutes a nugatory expenditure and could have been avoided with prudent financial management practices. No reason was provided for securing overdraft facilities.

In addition, the authority from the County Assembly to allow the County Executive to borrow or the set limit of the borrowing as required by Section 141 and 142 of the Public Finance Management Act, 2012 was not provided for audit review.

### **Recommendation**

The management should ensure that any borrowing is authorized by the County Assembly and is within the set limit as required by the Public Finance Management Act, 2012.

### **5.3 Cash Withdrawals**

A review of the cash book and the related records revealed that during the month of June 2014, amounts totaling Kshs.72,316,862.60 was withdrawn from the KCB-Operations Account No.1140772694. However, no documentation has been provided to show how the cash withdrawn was utilized. Consequently the propriety of the cash withdrawn amounting to Kshs.72,316,862.60 cannot be confirmed.

### **Recommendation**

Management should ensure that there is proper cash management records and that all cash payment are properly supported, authorized and accounted for as required by the Government Financial Regulations and Procedures. Further, any un-supported amounts should be recovered from the respective officers.

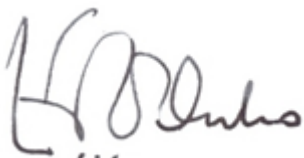
### **6.0 Un-Vouched Expenditure**

Audit review of expenditure records showed that payments totaling Kshs.23,812,029.30 were made to three firms and two financial institutions, but the payment vouchers together with the supporting documents were not provided for audit review. It was therefore not confirmed what the payments were for.

Consequently, the propriety of the expenditure of Kshs.23,812,929.30 could not be confirmed.

### **Recommendation**

Management should ensure that payments are made based on payment vouchers that are adequately supported, authorized and approved failure to which the respective officer is surcharged for the amount which is not supported with documentary evidence.



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

**Nairobi**

**25 May 2015**