

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL OPERATIONS OF
COUNTY ASSEMBLY OF TRANS NZOIA**

**FOR THE PERIOD
1 JULY 2014 TO 30 JUNE 2015**

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

EXECUTIVE SUMMARY

Background Information

The Constitution of Kenya, 2010 under Article 176, created County Governments which consist of the County Assembly and the County Executive. The County Assembly which is the legislative arm of the County Government consists of the Speaker and Members of County Assembly.

Introduction

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

Terms of Reference

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

- To assess controls over management of cash and bank accounts.
- To assess controls over management of assets of the County Assembly.
- To assess compliance with the procurement laws in acquisition of goods or services
- To assess compliance with the Public Finance Management Act, 2012 in the use of public funds.
- To assess 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.

Methodology

The methods used in carrying out the audit included the following:

- Interviews with key officers at the County Assembly offices.

- Review of applicable legislation and regulations.
- Examination of payment vouchers and support documents, cashbooks, vote books, bank statements, bank slips, miscellaneous receipt books, procurement documents, stores records, asset registers and other related records.
- Review of minutes of various meetings in which resolutions were made regarding use of public funds.
- Physical inspections and verifications
- Observation of processes and activities.
- Review of documents used by management to monitor use of funds.

Scope and Determination of Responsibilities

The audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). These standards require that the audit is planned and performed so as to obtain reasonable evidence that, in all material respects, expenditure incurred is fairly stated and all financial transactions are recorded.

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

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

The sections below highlight key audit findings noted during the audit of the financial operations of the County Assembly of Trans Nzoia for the year ended 30 June 2015:-

Key Audit Findings

1.0 Budgetary Controls and Performance

1.1 Recurrent - Over Expenditure

A review of the County Assembly records revealed that expenditure on rent and rates – non-residential totaling to Kshs.18,000,000 exceeded the budgeted sum of Kshs.13,000,000 by Kshs.5,000,00 or 38.46%. Similarly, expenditure on accommodation allowance totaling Kshs.31,583,633 exceeded the budgeted sum of Kshs.23,699,998 by Kshs.7,883,635 or 33.26% contrary to Section 15.12 of Government Financial Regulation and Procedures.

The propriety of the aggregate over-expenditure balance of Kshs.12, 883,635 could not therefore be confirmed.

1.2 Development Under-Expenditure

Examination of the County Assembly's revised budget for the period 2014/2015 revealed low absorption of the budget in some votes. For example, a sum of Kshs.74,200,000 was budgeted for under five vote-on-account items but only Kshs.29,500,000 was utilized. This was equivalent to a weighted average absorption rate of 39%. Low absorption of budgeted amounts impacts negatively on service delivery to the community.

2.0 Irregular Payments to Ward Office Bank Account

Records made available for audit review indicated that the County Assembly of Trans Nzoia opened and operated twenty five (25) bank accounts for the Members of the County Assembly (MCA's) to run Ward offices contrary to Treasury Circular Ref.No.AG.CON.1/022/VOL.14/12 dated 9 September, 2015. Between November 2014 and May 2015, a total of Kshs.10,000,000 was paid to the bank's local branch in Kitale and thereafter divided equally and credited to the respective Ward bank accounts. However, documents to support the operations of the bank accounts such as bank statements, cash books, bank reconciliation statements, payment vouchers and ledgers were not presented for audit verification. Further, there was no budgetary provision for the operation of Ward offices. Consequently, it was not possible to confirm the propriety of the Ward office expenditure amounting to Kshs.10,000,000.

3.0 Mortgage and Car Loans for MCAs

3.1 Unexplained Loan Remittances

Examination of records revealed that the County Assembly hired a commercial bank to manage its car and mortgage loan fund. The records further indicated that fund transfers totaling to Kshs.219,500,000 were made to a local bank between 26 March 2014 to 26 March 2015. However, the bank loan schedule reflected total payments amounting to Kshs.196,500,000 only. The difference amounting to Kshs.23,000,000 between the management and bank records has not been explained. Under the circumstances, it has not been possible to confirm the propriety of the unaccounted for disbursements totaling to Kshs.23,000,000.

3.2 Unconfirmed Loan Recoveries

Records examined indicated that loan recoveries from the beneficiaries totaling to Kshs.72,987,552 as at 30 June 2015 had been recovered from the members. However, it was not possible to verify whether the recoveries were indeed

remitted to the loan fund account since bank deposit slips, bank statements and cash books were not provided for audit review. Under the circumstances, it was not possible to confirm the accuracy of the loan recoveries balance totaling to Kshs.72,987,552.

3.3 Non-submission of Mortgage and Car Loan Fund Financial Statements

The County Assembly did not submit for audit financial statements for the mortgage and car loan fund for the year ended 30 June 2015 contrary to Section 164 (1) (4) of Public Finance Management Act 2012 which requires the Accounting Officer for a County Government entity to prepare and submit financial statements in respect of the entity to the Auditor-General.

No explanation has been provided for the omission.

3.4 Non Submission of Mortgage and Car Loan Securities

Expenditure records on the Fund presented for audit indicated that during the year under review, members of the County Assembly were granted mortgage and car loans totaling to Kshs.196,500,000. The repayment period was to run until May 2017. The loans were to be recovered from their salaries but the members were to provide guarantees in form of property titles to be charged on mortgages, and logbooks on car loans. However, there was no evidence to show that the titles and logbooks were surrendered and charged to the loans as required in the loan agreement.

As a result, it has not been possible to establish if the loans were adequately secured.

4.0 Irregular Payment of Sitting Allowances to MCAs

Payroll records presented for audit indicated that all MCAs were paid sitting allowances for both committee and plenary sessions at flat rates of either Kshs.208,000 or Kshs.164,400 per month. A member of a County Assembly (MCA) is entitled to sitting allowance(s) when participating in the plenary and (or) in select committee sessions. Part B of Salaries and Remuneration Commission Circular Reference SRC/TS/CGOVT/3/16 of 27 November, 2013 stipulates that members of the County Assembly Committees are entitled to a sitting allowance for up to a maximum of eight sittings per week subject to a monthly maximum of Kshs.208,000.00 for the chairman, Kshs.166,400.00 for the vice-chairman and Kshs.124,800.00 for each member. However, in the Trans Nzoia Assembly, payments were made for the whole year including the period when the Assembly was in recess in August 2014 and January 2015 thus resulting in an overpayment of Kshs.20,173,400 whose propriety could not be confirmed.

5.0 Books of Account and Records

The audit team noted that the County Assembly did not keep the prescribed books of account and records including payment vouchers movement register and ledgers as stipulated in the Public Finance Management Act 2012 and Part 3 of County Financial Accounting and Reporting Manual. The omission contravened the relevant Government Financial Regulations and Procedures.

6.0 Non-Preparation of Bank Reconciliation Statements

Records maintained by the County Assembly indicated that, the Assembly maintained two (2) bank accounts in two separate banks. However, the management did not present for audit review the respective bank reconciliation statements to reconcile the bank balances and the cash book for the period under review and as a result it was not possible to confirm the accuracy of the cashbook balances.



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

Nairobi

30 August 2016

DETAILED AUDIT REPORT ON THE FINANCIAL OPERATIONS OF COUNTY ASSEMBLY OF TRANS NZOIA FOR THE PERIOD 1 JULY 2014 TO 30 JUNE 2015

Detailed Audit Findings

1.0 Budgetary Controls and Performance

1.1 Over Expenditure – Recurrent

A review of the County Assembly records revealed that expenditure on Rent and Rates–Non-residential totaling to Kshs.18,000,000 exceeded the budgeted amount of Kshs.13,000,000 by Kshs.5,000,000 or 38.46%. Similarly, accommodation allowances expense balance totaling Kshs.31,583,633 exceeded the budgeted sum amounting to Kshs.23,699,998 by Kshs.7,883,635 or 33.26%. Section 15.12 of Government Financial Regulations and Procedures require expenditures on voted services to be limited to the respective estimates and that only expenditure provided for in the estimates may be incurred. Accounting officers are expected to ensure that requirements of services are planned in such a scale that the existing provision for expenditure shall not be exceeded. The propriety of the over-expenditures totaling to Kshs.12,883,633 analyzed below could not be confirmed:-

No.	Item	Code	Approved Budget (Kshs)	Total Payments (Kshs)	Variance (Kshs)	Variance %
1	Rent and Rates Non residential	2210603	13,000,000	18,000,000	5,000,000	38.46
2.1	Accommodation Allowance	2210710	13,199,998	18,200,000	5,000,000	37.87
2.2	Accommodation Allowance	2210710	10,500,000	13,383,633	2,883,633	27.46
			23,699,998	31,583,633	7,883,635	33.26
	Total		36,699,998	49,583,633	12,883,633	

Recommendation

The management should adhere to Government Financial Regulations and Procedures and avoid over-expenditure on budgetary provisions. Further, the management should present for audit review approvals for the excess

expenditures failure to which the accounting officer should be surcharged for flouting Section 5.2.1 of Government Financial Regulations and Procedures.

1.2 Under Expenditure- Development

Examination of the County Assembly's revised budget for the period under review revealed low absorption of the budgeted expenditure votes. A sum of Kshs.74,200,000 was budgeted for under five vote-on account items but only Kshs.29,500,000 representing a lowly weighted average absorption rate of 39.7% was spent as analyzed below:-

No.	Code	Item	Approved Budget	Total Payment	Variance	Absorption Rate %	% Weight Absorption Rate
1	311029	Construction of Administration Block	18,000,000	3,000,000	15,000,000	16%	4.04%
2	311029	Construction of Speaker's Official Residence	15,000,000	10,000,000	5,000,000	66%	13.34%
3	311029	Construction of Parking Shade	12,000,000	3,500,000	8,500,000	29%	4.72%
4	311108	Purchase of Police and Security Equipment	9,200,000	-	9,200,000	0%	0%
5	311029	Assembly Ground Perimeter Wall Fencing	20,000,000	13,000,000	7,000,000	65%	17.5%
		Total	74,200,000	29,500,000	44,700,000	39.76%	

Low budget absorption rates impact negatively on service delivery to the community.

Recommendation

For budgeted projects to realize the benefits they are intended to provide to the community, management should ensure that the projects are completed within the set timelines. Further, officers who fail to implement the budget as voted for should be held accountable.

2.0 Irregular Payments to Ward Office Bank Accounts

Records made available for audit review indicated that the County Assembly management opened and operated twenty five (25) bank accounts to enable Members of the County Assembly (MCA's) operate Ward offices. This was

contrary to Treasury Circular Ref.No.AG.CON.1/022/VOL.14/12 dated 9 September, 2015 which provides that, only Accounting Officers of County Government entities shall open and operate bank accounts for the running of offices, collecting revenues and operating established County public funds. Further, there were no budgetary provisions made for the operation of the Ward offices. Between November 2014 and May 2015, a sum of Kshs.10, 000,000 was paid to the local manager of a commercial bank in Kitale and credited to the individual ward bank accounts. However, key records on the operations of the bank accounts such as bank statements, cash books, bank reconciliation statements, payment vouchers and ledgers were not made available for audit. As a result, it was not possible to confirm the propriety of the ward expenditures totaling Kshs.10,000,000 as detailed in **Appendix I** of this report.

Recommendations

- i) Management should adhere to the Treasury Circulars when carrying out its operations.
- ii) Management should submit for audit review supporting documents on expenditure totaling to Kshs.10,000,000 incurred on Ward offices and failure to which the Accounting Officer should be surcharged.

3.0 Mortgage and Car Loans for MCAs

3.1 Unexplained loan remittances

Examination of records revealed that the County Assembly hired the services of a commercial bank to manage the Car and Mortgage Loan Fund. Fund transfers totaling to Kshs.219,500,000 were made to the bank account from 26 March 2014 to 26 March 2015 as detailed in **Appendix II** of this report. However, the bank loan schedule showing the total amount received by each beneficiary reflected disbursements totaling to Kshs.196,500,000 as shown in **Appendix III**. The difference between the two balances totaling Kshs.23, 000,000 has not been explained. Under the circumstances, it has not been possible to confirm the propriety of the unaccounted for balance totaling to Kshs.23,000,000.

Recommendation

The management should make available documentary evidence showing how the balance of Kshs.23,000,000 was utilized.

3.2 Unconfirmed Loan Recoveries

Records examined indicated that loan recoveries totaling to Kshs.72,987,552 as at 30 June 2015 had been recovered from the Members of the Assembly. However, it was not possible to verify whether they were remitted to the loan fund account since the bank deposits, bank statements and cash books were

not submitted for audit review. Under the circumstances, it was not possible to confirm the accuracy and validity of the loan recoveries balance of Kshs.72,987,552 detailed in **Appendix IV** of this report.

Recommendation

The management should submit the bank deposit slips, bank statements and cash books on loan recoveries for audit review failure to which the Accounting Officer should be held liable and accountable.

3.3 Submission of Mortgage and Car Loan Fund Financial Statements

The County Assembly did not submit for audit the financial statements of mortgage and car loan fund for the year ended 30 June 2015 contrary to Section 164 (1) (4) of Public Finance Management Act 2012 which requires that the Accounting Officer for a County Government entity to prepare and submit financial statements in respect of the entity to the Auditor-General for audit. No explanation has been provided for the omission.

Recommendation

The management should adhere to Public Finance Management Act 2012 by preparing and submitting financial statements of the fund to the Auditor - General for audit failure to which the Accounting Officer should be held liable for the missing documents.

3.4 Non-submission of Mortgage and Car Loan Securities

Other records presented for audit indicated that the Assembly advanced house mortgage and car loans totaling to Kshs.196,500,000 to its members during the year under review. The repayment period was to run until May 2017. The loans were to be recovered from the borrowers' salaries who were also required to provide guarantees in form of property titles to be charged against the mortgages and logbooks for the car loans. However, no evidence was presented for audit showing that land titles and logbooks were surrendered and charged to the loans as required under the lending agreement.

As a result, it has not been possible to establish if the loan repayments are secured in the event of default in repayment.

Recommendation

The Accounting officer should secure all loans issued to the County Assembly.

4.0 Irregular Payment of Sitting Allowances to MCAs

Information submitted for audit review indicated that all County Assembly MCAs were paid sitting allowances for both committee and plenary sessions at arbitrary pre-determined flat rates of either Kshs.208,000 or Kshs.164,400 per month as indicated in the payrolls for the period under review as detailed on **Annexure VI**. Part B of Salaries and Remuneration Commission Circular Reference SRC/TS/CGOVT/3/16 of 27 November, 2013 stipulates that members of the County Assembly shall be entitled to sitting allowance up to a maximum of eight sittings per week subject to a monthly maximum allowance of Kshs.208,000.00 for chairman, Kshs.166,400.00 for vice chairman and Kshs.124,800.00 for each member. However, payments were effected for the whole year including when the Assembly was in recess in August 2014 and January 2015. This resulted in an overpayment of Kshs.20,173,400 as detailed in **Appendix V**. As a result, the propriety of the expenditure of Kshs.20,173,400 could not be confirmed.

Recommendation

The management should recover the overpayments totaling to Kshs.20,173,400 from the respective members.

5.0 Books of Accounts and Records

The audit revealed that the County Assembly did not maintain the books of accounts and records including payment vouchers, movement register and ledgers set out in Part X1 Section 132 (1) of the Public Finance Management Act 2012 and Part 3 of County Financial Accounting and Reporting Manual. The omission contravened Government financial regulations and procedures.

Recommendation

The management should introduce a payment voucher register and ledgers and update them regularly failure to which they should be held liable for failure to implement government financial regulations.

6.0 Failure to Prepare Bank Reconciliation Statements

Section 5.9 of the Government Financial Regulations and Procedures which require Government entities to write, balance and verify cashbooks daily. In addition, the entities are required to prepare bank reconciliation statements once every month to reconcile the balances shown on the bank statement with that appearing in the cash book. Audit review of the County Assembly records indicated that the Assembly maintained two (2) Bank accounts at two local banks. However, the management did not submit the respective bank

reconciliation statements for audit and as a result, it has not been possible to confirm the accuracy of the cash book balances. Further, risk of loss of public funds remains high in the absence of regular reconciliation of bank and cash records.

Recommendation

- (i) The management should prepare and submit for audit review bank reconciliation statements for the period under review.
- (ii) Management should prepare the bank reconciliation statements on a monthly basis as stipulated in Government Financial Regulations and Procedures failure to which the respective officer should be held liable for the omission.

Conclusion

The management should address the issues highlighted in this report to ensure that public resources are used for the intended purposes and delivery of effective services to the people of Trans Nzoia County is enhanced.



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30 August 2016