

**REPUBLIC OF KENYA**



**REPORT**

**OF THE**

**AUDITOR-GENERAL**

**ON THE**

**FINANCIAL OPERATIONS**

**OF**

**COUNTY ASSEMBLY OF BUNGOMA**

**FOR THE**

**PERIOD 1 JULY 2013 TO 30 JUNE 2014**

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# **REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL OPERATIONS OF COUNTY ASSEMBLY OF BUNGOMA FOR THE PERIOD 1 JULY 2013 TO 30 JUNE 2014**

## **EXECUTIVE SUMMARY**

### **Introduction**

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

### **Audit Objective**

The audit covered the County Assembly and took into account transactions during the transition financial period ending 30 June 2014.

The terms of reference for the audit included verification and confirmation of transactions during the year in respect to but not limited to the following areas;

- Confirm that key management positions have been competitively filled.
- IFMIS, G-Pay Systems are in place and operational.
- County Governments Policies Implementation
- Expenditure and compliance with Public Finance Management Act, 2012; Public Procurement and Disposal Act, 2005
- Cash and Bank Balances
- County Government Funds
- Human Resource Records and Governance
- IT Environment
- Non-Current Assets
- Current Liabilities

### **Key Audit Findings**

#### **1.0 Over-Payment of Sitting Allowance**

During the period of seven (7) months from 1st December 2013 to 30th June 2014 the County Assembly of Bungoma paid to its Members of County Assembly (MCAs) sitting allowances based on the maximum possible sittings (32 sittings per month) irrespective of the number of sittings held. The Assembly incurred an amount of Kshs.68,140,800.00 in respect of the allowances. However, re-computation of the correct payable sitting allowances based on the actual sittings held during the period indicated an amount of

Kshs.14,376,700.00. The Assembly therefore incurred an over-payment of Kshs.53,764,100.00.

## **2.0 Nugatory External Travel and Accommodation**

Review of expenditure related to external travel and accommodation revealed that certain members of county assembly were paid a total of Kshs.24,012,836. Even though the teams came up with reports, no policy document arising from the foreign trips has been implemented to benefit the County.

## **3.0 Payment of Ward Staff Salaries without Appointment Letters**

Field visits to 20 out of the 45 wards revealed that the ward offices engaged the services of various categories of office staff. The staffs were not openly recruited. Further, an amount of Kshs.790,300.00 was paid by 17 ward offices to staff other than the ward managers and secretaries that had no appointment letters. The payments are irregular.

## **4.0 Variations in Contract Price**

Examination of tender documents relating to renovation of the County Assembly revealed that the original contract price of Kshs.19, 885,330.00 was varied upwards to Kshs.26,798,471.00 a difference of Kshs.6,913,141.00 or 35% instead of the maximum of 25% as required by the procurement regulations. The Assembly has not got value for money in the contract of Kshs.6,913,141.00 arising from the irregular contract variation.

## **5.0 Internal Audit.**

The Assembly has not established an internal audit department as well as an internal audit manual that documents audit approaches for its various categories of audit assignments.

The Assembly has neither established an internal audit charter nor an audit committee to guide the internal oversight function.

## **6.0 Audit Committee**

The County Assembly has not established an audit committee as required by the law. Hence, the management has not been able to assess the internal controls environment regularly.

## **7.0 Information Technology (IT) Internal Control Environment**

The County Assembly has not established an Information Technology Strategic and Steering Committee, an IT strategic plan that supports business requirements and ensures that IT spending remains within the approved IT strategic plan. It also lacks a

formally documented and approved process to manage upgrades and system changes made to all financial / performance information systems. The backups were not stored in a secure offsite storage facility instead; they are retained within the Information and Communication Technology office. The Assembly also lacks a formally documented and approved user management standards and procedures in the organization.

A handwritten signature in black ink, appearing to read 'E. Ouko', with three dots below the name.

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

**Nairobi**

**19 May 2015**

# DETAILED REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL OPERATIONS OF THE COUNTY ASSEMBLY OF BUNGOMA FOR THE PERIOD 1 JULY 2013 TO 30 JUNE 2014

## DETAILED AUDIT FINDINGS

### 1.0 Over-Payment of Sitting Allowance

Salaries & Remuneration Commission Circular Ref. No. SRC/TS/CGOVT/3/16 dated 15 November 2013 provided that sitting allowances should be paid based on actual sittings limited to a maximum of 32 sittings in a month.

During the period of seven (7) months from 1 December 2013 to 30th June 2014 the County Assembly of Bungoma paid to its MCAs sitting allowances based on the maximum possible sittings (32 sittings per month) irrespective of the number of sittings held. The Assembly incurred an amount of Kshs.68,140,800.00 in respect of the allowances. However, re-computation of the correct payable sitting allowances based on the actual sitting held during the same period indicated an amount of Kshs.14,376,700.00. The Assembly therefore incurred an over-payment of Kshs.3,764,100.00.

The Assembly lost Kshs.53,764,100.00 due to failure to comply with the Salaries & Remuneration Commission guidelines. The management concurred with the observation and noted its intention to effect recoveries.

### Recommendation

The management should recover the overpayment of Kshs.53,764,100 from the responsible MCAs as per directives provided in Salaries & Remuneration Commission Circular Ref. No. SRC/TS/RECM&E/3/68 dated 17th November 2014 and in future adhere to the guidelines.

### 2.0 Nugatory External Travel and Accommodation

Review of expenditure related to external travel and accommodation revealed that certain members of County Assembly were paid a total of Kshs.24,012,836. Even though the teams came up with reports, no policy document arising from the foreign trips has been implemented to benefit the County. The expenditure was incurred as tabulated below:-

Country of Visit	Item	Attendants		Amount
		MCA	Other Staff	Kshs.

Israel	Per Diem	Twenty one(21)	One(1)	4,696,355
	Facilitation Fee			6,600,000
South Africa	Per Diem	Twenty four(24)	One(1)	5,017,799
	Facilitation Fee			2,125,000
Rwanda	Per Diem	Seventeen(17 )	One(1)	2,160,000
	Facilitation Fee			3,422,682
<b>Total</b>				<b>24,021,836</b>

Management's explanation that the service was in relation to air ticket towards overseas trip for Members of the County Assembly for benchmarking tours, in addition to their training costs was inadequate and unacceptable.

### **Recommendation**

The Assembly should undertake cost benefit analysis for any foreign trips done by either the committees members or management.

### **3.0 Payment of Ward Staff Salaries without Appointment Letters**

Field visits to 20 out of the 45 wards revealed that the ward representatives engaged the services of various categories of office staff. The staffs were not openly recruited. Further, an amount of Kshs.790,300.00 was paid by 17 ward representatives to staff other than the ward managers and secretaries that had no appointment letters.

### **Recommendation**

The management should ensure that all the engaged staff at the ward offices are issued with appointment letters or recover the irregularly paid amounts.

### **4.0 Variations in Contract Price**

According to Regulation 31 of the Public Procurement Rules and Regulations, any variation of a contract shall be effective only if the price variation is based on the prevailing consumer price index obtained from Central Bureau of Statistics or the quantity variation for goods and services does not exceed twenty five percent (25%) of the original contract quantity.

Examination of tender documents relating to renovation of the County Assembly revealed that the original contract price of Kshs.19, 885,330.00 was varied upwards to Kshs.26, 798,471.00 a difference of Kshs.6, 913,141.00 or 35% instead of the maximum of 25% as required by the procurement regulations. The Assembly has not

got value for money in the contract of Kshs.6,913,141.00 arising from irregular contract variation.

Management alleges that the variation was occasioned by modifications to the original contract as approved by the County Assembly Board as the procurement unit was not properly constituted at the time.

### **Recommendation**

The management should establish the procurement unit to ensure compliance with the provisions of the public procurement regulations on contract variation.

### **5.0 Internal Audit Function**

Section 155(1) of the Public Finance Management Act, 2012 requires the County Government entities to maintain appropriate internal auditing arrangements for conducting internal audit according to the guidelines of the Public Sector Accounting Standards Board.

The internal audit function of the County Assembly has the following weaknesses;

- The Assembly has not established an internal audit manual that documents audit approaches for its various categories of audit assignments that is in line with applicable standards
- The Assembly has further neither established an internal audit charter to guide the internal oversight function.

The oversight over the internal control system and governance of the Assembly is compromised. The management asserts that they are awaiting the finalisation of the staff recruitment process and operationalization of the approved organisation structure as approved by the Salaries and Remuneration Commission

### **Recommendation**

The management should develop and implement the internal audit charter and internal audit manual

### **6.0 Audit Committee Function**

Section 155(3) of the Public Finance Management Act, 2012 requires every County Government entity to establish an audit committee whose composition and functions shall be as prescribed by the regulations.



The County Government of Bungoma has not established an audit committee as required by the law. Hence, the management has not been able to assess the internal controls environment regularly. The desired impact and effectiveness of an audit committee in performing its oversight role is compromised.

### **Recommendation**

The management should establish the audit committee as required by law

## **7.0 Risk Management Policy and Framework**

Treasury Circular No.3/2009 provides that all accounting officers should develop and implement an institutional risk management policy framework in the public sector. However, the County Assembly has not developed and implemented a risk management framework and policy to guide the achievement of strategic goals and objectives.

### **Recommendation**

The management should develop and implement a risk management policy and framework to mitigate its operational risks.

## **8.0 Information Technology (IT) Internal Control Environment**

The following weaknesses were identified in the County Assembly's IT internal control environment;

- 1 Non-existence of an Information Technology Strategic and Steering Committee
- 2 Failure to implement an IT strategic plan that supports business requirements and ensures that IT spending remains within the approved IT strategic plan.
- 3 Lack of a formally documented and approved process to manage upgrades and system changes made to all financial / performance information systems.
- 4 The backups were not stored in a secure offsite storage facility instead; they are retained within the Information and Communication Technology office.
- 5 Lack of a formally documented and approved user management standards and procedures in the organization.

The Assembly's information may be at risk of access by unauthorized users.

### **Recommendations**

The management of County Assembly should;

- Institute proper information technology controls to address the identified weaknesses
- Establish the IT Strategic and Steering Committee
- Implement the IT Strategic Plan
- Train staff on IT capacity to implement the IT controls

## **Conclusion**

The County Assembly of Bungoma has a number of internal control weaknesses that require to be urgently addressed to enable smooth operations and ensure effective management of County Assembly resources for efficient and effective service delivery to the County residents.

A handwritten signature in black ink, appearing to read 'E. Ouko', with three dots below the signature.

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

**Nairobi**

**19 May 2015**