

REPUBLIC OF KENYA



REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL OPERATIONS

OF

MARSABIT COUNTY ASSEMBLY

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

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

EXECUTIVE SUMMARY

Introduction

The Office of the Auditor General has the mandate to audit and report on the accounts and financial operations of both the National and County Governments under Article 229 of the Constitution and Public Audit Act, 2003. Further, Section 107 of the Public Finance Management Act, 2012 requires the County Treasury to enforce fiscal responsibilities in management of County Government public finances.

Audit Objective

The objective of the audit was to ascertain whether the systems formulated and applied by the Marsabit County Assembly were reliable for the management of the County Assembly's finances in the delivery of services to the local residents. The terms of reference set for the audit included verification and confirmation of transactions in respect to but not limited to the following areas:

- (i) Budgetary controls and performance
- (ii) Procurement of goods, works and services
- (iii) Allowances including travelling and accommodation expenses for local and foreign trips.
- (iv) Motor vehicle running expenses - Fuel
- (v) Imprests and advances
- (vi) Human Resource Records
- (vii) Information Technology Environment
- (viii) Non-current assets
- (ix) Debtors – Car Loans for MCAs

Key Audit Findings

1.0 Budgetary Control and Performance

The County Assembly incurred an expenditure of Kshs.303, 067, 684 under recurrent vote out of the approved budget of Kshs.304,491,716 for the year 2013/2014 hence leaving unspent balance of Kshs.1,424,032. During the same period, Kshs.100,000,000 was received for Car Loan and Mortgage Scheme for Members of County Assembly (MCAs). Out of this amount, Kshs.86, 522, 880 was disbursed to the MCAs as Car loans during leaving the year unspent balance of Kshs.13,477,120.

However, the unspent balances at the end of the year were not surrendered to Exchequer Account for re-allocation as required.

2.0 Procurement of Goods, Works and Services

2.1 Purchase of Motor Vehicles

The County Assembly procured four (4) motor vehicles from a supplier at a cost of Kshs. 31,033,000. However, it was observed that the motor vehicles were not inspected by the Inspection and Acceptance Committee as no report accepting delivery of the motor vehicles was produced for audit verification. Further, the Log books for the motor vehicles registration numbers KBZ 902D and KBZ 350D had not been delivered as at the conclusion of the audit on 19 February 2015.

No explanation was given for failure to have the motor vehicles inspected on delivery or why the log books were not in the custody of the County Assembly.

2.2 Irregular Procurement and Installation of Internet

The County Assembly paid Kshs.4,476,576 to a supplier who was the second highest for the supply and installation of internet and structured LAN Cablings at the Assembly. However, no explanation was given for failure to award the tender to the lowest bidder who had quoted a price of Kshs.4,127,200.

Had the tender been awarded to the lowest bidder, the County Assembly could have saved Kshs.360,376.

3.0 Unaccounted for Expenditure on Advertisement

Some media houses were paid a total of Kshs 560,280 for advertisement of tender notices, County Assembly hearings and job vacancies. However, no documentary evidence was produced for audit verification to confirm that the services were rendered. In the circumstances, the propriety of the expenditure of Kshs.560,280 could not be confirmed.

4.0 Irregular Payment of Sitting Allowances

Examination of expenditure records in respect of sitting allowance paid to various committee members disclosed cases of payments of allowances for sessions not attended totaling Kshs.457,600 during the year ended 30 June 2014.

No explanation was given for the irregular payment of sitting allowances.

5.0 Foreign Travelling and Accommodation

The County Assembly incurred an expenditure of Kshs.48,299,929 in respect of foreign travelling and accommodation out of the budgeted amount of Kshs.48,300,000. Included in the total expenditure was Kshs.16,869,176 paid to various Members of the County Assembly in respect of per diem and air fare for trips to USA, Dubai and Israel.

However, it was observed that some members did not produce proof of travelling in terms of boarding passes, Passports (copies) and other necessary supporting documents. It was therefore not possible to confirm the propriety of the expenditure totaling Kshs.16,869,176.

6.0 Irregular Payment of Domestic Travel Allowances

During the period under review, the County Assembly spent Kshs.7,679,000 on allowances to cater for domestic travelling costs by various officers. Out of this expenditure, Kshs. 1,404,000 was paid to thirty seven (37) officers while attending a retreat in Isiolo town. However, the number of days the retreat took place, the rate of payment per person and the venue were not disclosed. Further, the total expenditure of Kshs. 7,679,000 was not supported by evidence of travelling in form of bus tickets, vehicle work tickets, events programme, and attendance register, hire of conference facilities, invitation letters or returns of the retreat in form of reports.

7.0 Reallocation of Funds

The County Assembly reallocated funds totaling Kshs. 4,800,000 from different approved estimate votes to cater for Ward Office expenditure. However, it was observed that the reallocation was done without prior approved of the supplementary budget. As at the conclusion of audit exercise in February 2015, Kshs. 4,800,000 had been transferred to different Ward accounts but no expenditure returns had been submitted to the Assembly.

In the circumstances, the propriety of the expenditure of Kshs.4, 800,000 could not be confirmed.

8.0 Non- Existence of Medical Insurance Policy

The County Assembly reimbursed a total of Kshs 4,061,630 in respect of medical expenses incurred by the MCA's and members of staff. However, there was no medical insurance policy or guidelines on the utilization of funds set aside to cater for medical expenses. In addition, the expenditure exceeded the approved budget of Kshs.4, 000,000 by Kshs 61,630 without approval

No explanation was given for the over expenditure.

9.0 Irregular Issuance of Car Loans to MCAs

The Members of the County Assembly (MCAs) and the Speaker were granted car loans ranging from Kshs.2,000,000 to Kshs.3,000,000 each all totaling Kshs.86,500,000. However, loan application forms, sale agreements or duly completed hire purchase proposal forms were not made available for audit verification. Further, no log book(s) of the motor vehicles purchased were made available for audit verifications. It was therefore not possible to ascertain whether the loans were utilized for the intended purpose. It is not clear whether the loans disbursed were secured by registering the loan vehicles in joint ownership.

10.0 Non Existence of Internal Audit

During the period under review, the county Assembly did not have in place an internal audit department or any arrangement on how the functions of internal audit were to be carried out.

11.0 Non-current Assets

The Marsabit county Assembly did not maintain a fixed assets register contrary to Section 149 (2) of the Public Finance Management Act, 2012. The County Assembly had purchased assets worth Kshs.22,388,494 since it started operations. No explanations were provided for not maintaining the fixed assets register.

12.0 Recruitment Allowances

During the period under review, the County Assembly incurred an expenditure of Kshs. 1,080,000 in respect of sitting allowance to members of the County Service Board, being accommodation allowance while at Isiolo between 2 January 2014 to 13 January 2014 on official duties. It was however noted that the board members had gone to Isiolo to do short listing of applicants for the county jobs. It was not explained as to why the short listing was done in Isiolo instead of Marsabit.

In the circumstances, the propriety of the expenditure could not be confirmed in accordance to Section 149 (1) of the Public Finance Management Act, 2012.

13.0 Sitting Allowances

Examination of expenditure records in respect of sitting allowance paid of Kshs.457,000 to various committee members disclosed cases of payments of allowances for sessions not attended contrary to Section 149 (1) of the PFM Act, 2012.

14.0 IT Environment

The financial operations of the County Assembly were being undertaken through manual vote books and cash books as the IFMIS system had not been adopted. This was contrary to Clause 8 (2) of the County Government Public Finance Management Transition Act, 2013 which required the adoption of the financial management systems developed by the National Treasury.

No explanation was given for failure to adopt the financial management systems developed by the National Treasury in the financial operations of the County Assembly.



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

19 May 2015

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

Detailed Audit Findings and Recommendations

1.0 Budgetary Control and Performance

The County Assembly incurred an expenditure of Kshs.303, 067, 684 under recurrent vote out of the approved budget of Kshs.304,491,716 for the year 2013/2014. Leaving an unspent balance of Kshs.1,424,032. During the same period, Kshs.100,000,000 was received for Car Loan and Mortgage Scheme for Members of County Assembly (MCAs). Out of this amount, Kshs.86, 522, 880 was disbursed to the MCAs as Car loans leaving an unspent balance of Kshs.13,477,120 as at 30 June 2014.

The County Assembly mainly under spent on the following sub-heads;

Item	Budget (Kshs)	Actual (Kshs)	Unspent (Kshs)
Motor Vehicles Insurance	1,800,000	1,677,000	123,000
Fuels, Oils & Lubricants	5,600,000	5,071,415	528,585
Contracted Professional Services	3,337,000	3,213,401	123,599
Purchase of Motor Vehicles	36,535,000	35,887,576	647,424
Car Loans for MCAs	100,000,000	86,522,880	13,477,120

However, the balances unspent at the end of the year were not surrendered to Exchequer Account for re-allocation.

Recommendations

- All unspent AIEs or balances at the close of the financial year should be surrendered to Exchequer Account for re-allocation.
- The County Assembly should ensure a higher absorption rate to enhance service delivery to the county residents.

2.0 Procurement of Goods, Works and Services

2.1 Purchase of Motor Vehicles

The County Assembly procured four (4) motor vehicles from Motor dealer , at a total cost of Kshs. 31,033,000 and the payments were made as follows:-

P.v no.	Date	Particulars	Amount (Kshs)
MCA/120	10/10/2013	KBW 251C Land Cruiser HZJ 76	7,326,000
MCA/294	31/01/2014	KBY 082C Land Cruiser HZJ 78	7,674,000
MCA/896	25/06/2014	KBZ 902D Land Cruiser – Hard top HZJ76R	7,933,000
MCA/896	25/06/2014	KBZ 350D Land Cruiser – Hard top HZJ78R	8,100,000
Total			31,033,000

However, the following unsatisfactory observations were made:-

- i). No inspection and acceptance committee report accepting delivery of the motor vehicles was produced for audit. It was therefore not clear whether the vehicles supplied met the requirement stated in the tender document.
- ii). Log books for motor vehicles KBZ 902D and KBZ 350D were not in the custody of the Assembly as at the conclusion of the audit on 19 February 2015. We could not establish the ownership of the vehicles.

Recommendations

- The management of the County Assembly should ensure that inspection and acceptance procedures are adhered to in all future procurements.
- The log books for the two motor vehicles should be made available for audit verification.

2.2 Irregular Procurement and Installation of Internet

The County Assembly paid Kshs.4,084,600 to a supplier for Installation of internet and structured LAN Cablings at the Assembly and the payment was made vide payment voucher number 813 dated 24 June 2014. However, it was observed that the tender was awarded to the second lowest bidder.

No explanation was given for failure to award the tender to the lowest bidder who had quoted a price of Kshs.4,127,200. Had the tender been awarded to the lowest bidder, the county assembly could have saved Kshs.360,376. Further, minutes of tender

opening, analysis, technical evaluation and awarding were not provided for audit. It was therefore not clear whether due process was followed in the procurement of the service. Although the internet was installed and working, the testing and acceptance reports were not made available for audit verification.

Recommendations

- The County Assembly management should account for the loss of Kshs.360,376 occasioned by the failure to award the contract to the lowest bidder.
- The tender documents should be availed for audit verification.
- acceptance taking offer of the asset. The inspection and acceptance committee report should always be done to allow

3.0 Unaccounted for Expenditure on Advertisement

A payment of Kshs. 560,280 was made to two Media firms for advertisement of tender notices and County Assembly job vacancies.

However, an examination of the payment vouchers revealed that no copies of the advertisements were produced for audit and it was therefore not possible to ascertain if the services were actually delivered.

Recommendation

The expenditure should be accounted for in full by attaching all relevant documents to the payment vouchers.

4.0 Irregular Payment of Sitting Allowance

Examination of expenditure records in respect of sitting allowance of Kshs.147,600 paid to various committee members disclosed cases of payments of allowances for sessions not attended.

Recommendation

The irregularly paid sitting allowances should be recovered from the concerned MCAs.

5.0 Foreign Travelling and Accommodation

An expenditure of Kshs.48,299,929 in respect of foreign travelling and accommodation was incurred during the year out of the budgeted amount of Kshs.48,300,000. Included in the total expenditure was Kshs .16,869,176 paid to various Members of the County Assembly in respect of per diem and air fare for trips to USA, Dubai and Israel for educational tours on innovative and value added agriculture in Israel, Benchmarking study on security enhancement and risk mitigation in Dubai and Management benchmarking in USA.

The payments were made as detailed below:-

PV/No.	Date	Tour	Amount (Kshs)
MCA/849	23/06/2014	Dubai	3,875,727

MCA/890	24/06/2014	Dubai	845,000
MCA/852	24/06/2014	Israel	4,192,409
		USA	6,333,040
MCA/902	30/06/2014	USA	<u>1,623,000</u>
Total			<u>16,869,176</u>

However, it was observed that some members did not produce proof of travelling in terms of boarding passes, Passports (copies) and other necessary supporting documents. The unsupported expenditure amounted to Kshs. 9,935,083.

It was therefore not possible to confirm the propriety of the expenditure totaling Kshs. 9,935,083.

Recommendation

The amount irregularly paid should be recovered from the MCA's responsible

6.0 Irregular Payment of Domestic Travel Allowances

During the period under review, the County Assembly spent Kshs .7,679.000 on domestic allowances to cater for travelling costs by various officers. Out of this amount, Kshs. 1,404,000 was paid to thirty seven (37) officers while attending a retreat in Isiolo town. However, the number of days the retreat took place, the rate of payment per person and the venue of the retreat was not indicated. In further, the total expenditure of Kshs. 7,679,000 was not supported by evidence of travelling in form of bus tickets, vehicle work tickets, events programme, and attendance register, hire of conference facilities, invitation letters or returns of the retreat in form of reports.

Recommendations

- Management should ensure all domestic travel allowances paid to officers are fully supported
- Any unsupported payments should be recovered.

7.0 Reallocation of Funds

The County Assembly reallocated funds from different approved estimate votes to cater for Ward Offices expenditure. The reallocation was done through a letter Ref:MCA/ACCT/1/Vol. 1/4 dated 30 June 2014 signed by the Clerk to the County Assembly. The letter was addressed to the Chief Finance Officer stating that Members of County Assembly (MCAs) were eligible to ward funds which were payable as follows:

Item	Amount (Kshs)
Salaries	50,000
Office Rent	10,000
Stationary	20,000
Total	80,000 per month

Further, the letter authorized funds to be charged from some sub heads as shown below:-

Item	Amount (Kshs)
2210201	1,124,200
2211310	70,000
2220101	575,800
3110301	500,000
2210301	1,130,000
2210701	<u>1,400,000</u>
Total	<u>4,800,000</u>

The twenty (20) Wards within the county received Kshs. 240,000 each and the amount was deposited in the individual Ward Account. The funds were transferred from Marsabit County Assembly Account.

However, the following anomalies were noted:-

- The reallocation of funds to Ward Fund was done without prior authority or an approved supplementary budget.
- The MCAs recruited officers at their respective ward offices yet they didn't have the mandate to recruit staff.
- The signatories of the Ward bank accounts were not disclosed.
- Korr Ward Office (No. 11) and Korr/Ngurnit Ward Office (No.16) shared one Bank Account
- None of the MCAs had submitted the appointment letter(s) for the officer(s) budgeted to earn Kshs. 50,000 per month.
- None of the MCAs had submitted the rent / lease agreements for the ward offices.

- As at the conclusion of audit exercise, Kshs. 4,800,000 had been transferred to different ward bank accounts but no expenditure returns had been submitted to the Assembly to show how the amount was spent.

Recommendations

- Provisions of the Public Finance Management Act, 2012 should be adhered to in future reallocations.
- Funds transferred to Ward bank accounts should be accounted for.
- Any funds paid without value for money should be recovered appropriately.

8.0 Non- Existence of Medical Insurance Policy

The County Assembly reimbursed a total of Kshs.4,061,630 in respect of medical expenses incurred by the MCA's and members of staff. However, there was no medical insurance policy or guidelines on the utilization of funds set aside for medical expenses.

Further, the expenditure exceeded the budgeted amount of Kshs.4,000,000 by Kshs 61,630 and it was noted that the over expenditure was not approved.

Recommendation

The Management of the County Assembly should ensure that a Medical Insurance Cover is procured for MCAs and Staff and all reimbursement done before procurement of insurance cover recovered from respective MCAs and officers.

9.0 Irregular Issuance of Car Loans to MCAs

During the year under review, Members of the County Assembly (MCAs) and the Speaker were granted car loans ranging from Kshs.2,000,000 to Kshs.3,000,000 each all totaling Kshs.86,500, 000. The amounts were transferred vide payment voucher numbers MCA/912 dated 30 June 2014 for Kshs.9, 000,000 and MCA/914 dated 30 June 2014 for Kshs.77, 500,000 respectively.

However, the following anomalies were observed:-

- No loan application forms, sale agreements or duly completed hire purchase proposal forms were not made available for audit verification.
- No log book(s) of the motor vehicles purchased were made available for audit verifications. It is therefore not clear whether the loans are secured.

In the circumstances, the propriety of the expenditure of Kshs.86,000,000 could not be confirmed.

Recommendations

- The MCA's and the speaker should follow the normal car loan regulations to ensure the funds are secured.
- Any unsupported payments should be recovered appropriately.

10.0 IT Environment

The financial operations of the County Assembly were being undertaken through manual vote books and cash books as the IFMIS system had not been adopted. This was contrary to Clause 8 (2) of the County Government Public Finance Management Transition Act, 2013 which required the adoption of the financial management systems developed by the National Treasury.

No explanation was given for failure to adopt the financial management systems developed by the National Treasury in the financial operations of the County Assembly.

Recommendations

- The County Assembly Management should liaise with the IFMIS department of the National Treasury to have the IFMIS and G-Pay System connectivity.
- The County Assembly should train staff on IFMIS operations.
- The County Assembly should have an IT strategic plan, steering committee, disaster recovery plan to enhance data integrity.

11.0 Non Existence of Internal Audit

During the period under review, the county Assembly did not have in place internal audit department or any arrangement on how the functions of internal audit were to be carried out. It is contrary to the PMF Act 2012 which requires all Government institutions to have internal audit department and the Audit Committee. Internal audit also helps in implementing control measures to safeguard the public assets. It helps management in identifying fraud in time and takes appropriate action

Recommendation

The management of Marsabit County Assembly should establish the internal audit unit to be able to comply with the Government requirement and also benefit from the advantages of internal audit.

12.0 Non-current Assets

The Marsabit county Assembly did not maintain a fixed assets register contrary to Section 149 (2) of the PFM Act 2012. The County Assembly had purchased assets worth kshs. 22,388,494 since it started operations. Further, there were assets acquired from the defunct local Authorities which were not kept tracking, otherwise they can easily be misappropriated in the transition period.

No explanations were provided for not maintaining the fixed assets register.

Recommendations

The County management should maintain the assets register to keep track of the Public Assets. This will also help them comply with the requirements of PFM Act 2012

13.0 Recruitment allowances

During the period under review, the County Assembly incurred an expenditure of Kshs. 1,080,000 in respect of sitting allowance to members of the County Service Board, being accommodation allowance while at Isiolo between, 2 January 2014 to 13 January 2014, on official duties. It was however noted that the board members had gone to Isiolo to do short listing of applicants for the county jobs. It was not explained as to why the short listing was done in Isiolo instead of Marsabit.

In the circumstances, the propriety of the expenditure could not be confirmed in accordance to Section 149 (1) of the Public Finance Management Act 2012.

Recommendation

The allowances paid irregularly should be surcharged from those who benefited. In future, no such allowance should be paid for the work that can be done in the duty station during the normal working hours.

14.0 Irregular Payment of Sitting Allowance

Examination of expenditure records in respect of sitting allowance of Kshs.147,600 paid to various committee members disclosed cases of payments of allowances for sessions not attended. The details of the members paid allowances for sessions not attended.

Recommendation

The irregularly paid sitting allowances should be recovered from the concerned MCAs.

Conclusion

The County Assembly of Marsabit had challenges in its first year of operations ending including setting up the structures, staffing and adhering to the public finance management regulations and procedures for enhanced service delivery to the county residents.

All anomalies noted should be addressed in order to ensure effective delivery of service to the people of Marsabit County.



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

19 May 2015