

REPUBLIC OF KENYA



REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL OPERATIONS OF
COUNTY EXECUTIVE OF KERICHO**

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

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

EXECUTIVE SUMMARY

Introduction

The financial transactions of the County Government of Kericho for the financial year 2013/2014 are subject to audit by the Auditor-General in accordance with article 229 (5) of the Constitution of Kenya and section 36 of the Public Audit Act, 2003.

Audit Objectives

The objective of the audit was to ascertain whether the systems formulated and applied by the County Executive were reliable for the management of the County Government's finances in the delivery of service to the local residents.

Terms of Reference

The audit covered the County Executive of Kericho for the period 01 July, 2013 to 30 June 2014. The terms of reference set for the audit included verifications and confirmations of transactions in respect to but not limited to the following areas:

- Budgetary control and performance
- Revenue collections
- Recurrent and development expenditure
- Current debtors and current liabilities
- Procurement and procurement procedures
- Human resource records

KEY AUDIT FINDINGS

1.0 Under Expenditure of the Development Vote

The County Executive spent Kshs.719,385,358.40 on capital/development expenditure representing 24% of the total expenditure of Kshs.2,993,009,439 which, however, falls short of at least 30% threshold recommended by the Public Finance Management Act, 2012. Failure to allocate adequate funds for development may lead to slow economic growth.

2.0 Revenue

2.1 Unbanked Revenue

The County Executive collected revenue of Kshs.359,901,814.00 but only Kshs.351,981,315 was banked. The resultant difference of Kshs7,920,499 has not

been explained or accounted for. Failure to bank all revenue collected intact could lead to loss of cash.

2.2 Unexplained Decline in Revenue Collection

Comparison of revenue collection in 2012/2013 and 2013/2014 financial years revealed a decrease in collection of Kshs.35,874,235.20 from revenue collected in 2012/2013 of Kshs.395,776,049.50 and revenue collections for 2013/2014 of Kshs.359,901,814.30. The decrease was not explained.

3.0 Expenditure

3.1 Lack of an Annual Procurement Plan

The County Executive did not prepare a procurement plan for the year under review as required by section 26 (3) (a) of the Public Procurement and Disposal Act, 2005. Therefore, all procurement done during the year were irregular.

3.2 Unaccounted for Refunds to the National Government

The County Executive reimbursed the National Government Kshs.253,000,000 in respect of salaries paid by the National Government to personnel in the health sector who were devolved to the County. However, no details were provided to show the personnel who were paid or how the amount was arrived at. Further, there was no acknowledgement from the National Treasury to confirm receipt.

3.4 Employee Costs

The County Executive spent Kshs.1,410,349,700 on staff emoluments which is 50 % of the total payments of Kshs.2,818,614,650. This is an indication of a high wage bill which may not be sustainable and affects the County Development budget allocations.

3.6 Pending Bills

The County Executive did not settle bills totaling Kshs. 650,911,038.04 during the year, but carried them forward to the financial year 2014/2015. This was 23% of the total payments of Kshs. 2,818,614,650. Failure to pay bills in the year in which they relate adversely affects the budget of the subsequent year.

4.0 Outstanding Imprests

Temporary imprests totalling Kshs.3,186,063 which should have been surrendered were still outstanding as at 30 June, 2014.. Failure to surrender imprests when they fall due is a pointer to weak financial control which may lead to loss of public funds.

5.0 Human Resource

5.1 Lack of Personnel Establishment

The County Executive does not have an approved personnel establishment to indicate the number of the employees required in each category and therefore it was not possible to ascertain the optimum number of employees required. This may lead to skewed deployment of staff and increase in employees' costs.

5.2 Lack of a Comprehensive Terms of Conditions for Employees

The County Executive does not have a documented terms and conditions of service. It was not possible to determine how the respective salaries being earned were arrived at. Further, the County Executive did not carry out a staff capacity assessment and rationalization.



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

1 July 2015

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

Detailed Audit Findings and Recommendations

1.0 Under Expenditure of the Development Vote

The Public Finance Management Act, 2012, section 107, (2) (b) requires that a County government should allocate and spend at least 30% of its budget to development expenditure. However, during the year, the County Executive spent Kshs.719,385,358.40 on capital/development expenditure representing 24% of the total expenditure of Kshs.2,993,009,439.10.

Recommendation

The County Executive should increase the budgetary provisions for development expenditure in order to adhere to provisions of Section 107(2) of the Public Finance Management Act 2012.

2.0 Revenue

2.1 Under-Banking of Revenue collections

Section 109 (2) of the Public Finance Management Act, 2012 requires that all revenue raised is banked in the County Revenue Fund. However, during the year under review, the County Executive collected revenue totaling Kshs.359,901,814 but only Kshs.351,981,315 was banked resulting in unreconciled revenue of Kshs.7,920,499. This difference has not been explained or reconciled.

2.2 Comparisons in Revenue Collections

Examination of the revenue records maintained by the County Executive Treasury Department revealed that the total revenue collections decreased by Kshs.35,874,235 from revenue collected in 2012/2013 of Kshs.395,776,049 and revenue collections for 2013/2014 of Kshs.359,901,814 as shown. No explanation has been given for the drop in revenue collections.

Revenue Collections in 2012/2013 and 2013/2014 (Kshs.)

Month	C.C. Kipsigis	C.C. Bureti	M.C. Kericho	T.C. Londian	T.C. Kipkelion	T.C. Litein	Totals
July 2012 to March 2013	67,652,362	106,471,658	142,819,209	4,801,778	7,795,396.50	19,412,812	348,953,215

April 2013	3,171,817	908,355	6,783,604	507,204	510,660	1,828,205	13,709,845
May 2013	3,274,517	2,261,965	9,556,784	315,250	439,783	1,565,162	17,413,461
June 2013	5,342,567	2,111,310	6,243,868	364,255	272,210	1,365,318	15,699,528
Total	79,441,263	111,753,288	165,403,465	5,988,487	9,018,049.50	24,171,497	395,776,049
Revenue collection in 2013/2014							359,901,814
Variance							35,874,235

2.3 Under- Collection of Revenue

The County Executive had budgeted to collect venue of Kshs. 631,152,462 during the 2013/2014 financial year. However, the County collected Kshs. 359,901,814 resulting in an under collection of revenue of Kshs. 271,250,648 or 43 % from the budgeted amount. Consequently, the County Executive may not have sufficient funds to enable it deliver services.

Recommendations

- Proper systems should be put in place to ensure that revenue collected is promptly receipted, recorded and banked intact.
- Revenue collection in the County should be computerized and an integrated automated receipting system is used.
- The County Executive should also put in place strong internal control system to ensure proper accountability at every stage in the revenue collection cycle.
- The County Executive should put in place measures to enhance revenue collection.

3.0 Expenditure

3.1 Unaccounted for Refunds to the National Government

The County Executive made refunds of Kshs. 253,000,000 to the National Treasury in respect of salaries paid by the National Government for personnel in the health sector who were devolved to the County but paid for by the National Government for the six months period between July to December, 2013. However, no details were provided to show the specific personnel who were paid or how the amount was arrived at. Further, there was no acknowledgement from the National Government to confirm receipt.

Recommendations

The County Executive and National Government should reconcile their records. The National Government should provide details of the personnel paid and the amounts and confirm that they worked in Kericho County during the period.

3.2 Employee Costs

Section 107(2)(c) of the Public Finance Management Act, 2012 states that the County Government expenditure on wages and employee benefits shall not exceed a percentage of the County Government total revenue as prescribed by the County Executive Member for Finance in regulation and approved by the County Assembly.

However, during the year under review, no specific percentage was set by the County Executive Member for Finance and approved by the County Assembly as required by the law.

During the year, Kshs.1,410,349,700 or 50% of the total payments of Kshs.2,818,614,650 was spent on compensation to employees which is an indication of a high wage bill. This may not be sustainable and could adversely affect the County's development plans.

Recommendation

There is a risk of paying dormant workers due to lack of defined needs. The County Executive should carry out a need analysis so as to establish the optimal staff requirement.

4.0 Pending Bills

Records maintained at the County Treasury revealed that bills totaling Kshs.650,911,038.04 were not settled in the year but were carried forward to the financial year 2014/2015. This was 23% of the total payments of Kshs.2,818,614,650. Failure to pay bills in the year in which they relate adversely affects the budget of the subsequent year. Details of the bills are as follows:

Accounts Payable	Amount (Kshs.)
Construction of civil works	172,409,143.70
Supply of goods	475,888,685.34
Supply of services	2,613,209.00
Total	650,911,038.04

Recommendations

The County Executive should endeavor to pay all bills within the year in which they relate as carrying forward of bills negatively affects the year in which they are settled.

4.1 Outstanding Imprests

Records available indicate that imprests totalling Kshs. 3,186,063 which should have been surrendered were still outstanding as at 30 June, 2014. Some officers were advanced more than one imprest while some had remained outstanding for long, contrary to the provisions of Section 152 of the Public Financial Management Act, 2012.

Further, the imprest register for the Ministry of Trade, Industrialization, Wildlife and Tourism was not availed for audit verification. It was therefore not possible to confirm whether there were any imprests outstanding from that Ministry.

Recommendation

Failure to surrender imprests when they fall due is a pointer to weak financial control which may lead to loss of public funds. All unsurrendered imprests should be recovered from the respective employees' salaries.

4.2 Lack of an Annual Procurement Plan

The County Executive did not prepare a procurement plan for the year under review as required by section 26 (3) (a) of the Public Procurement and Disposal Act, 2005. Therefore all procurement done during the year was irregular.

Recommendation

The County Executive should prepare an annual procurement plan as required by the Act.

5.0 Human Resource

5.1 Lack of Personnel Establishment

During the year under review, the County Executive did not have an approved personnel establishment to indicate the number of employees required in each category. It was therefore not possible to confirm the optimum number of employees required. This may lead to overemployment and increase in employees costs.

5.2 Lack of a Comprehensive Terms of Conditions for Employees

The County Executive has four categories of employees in its payroll namely; newly employed, Economic Stimulus Programme (ESP), Devolved staff and those absorbed from the Defunct Local Authorities. However, there were no documented terms and conditions of service and as such it was not possible to ascertain how the respective salaries and allowances earned were arrived at. Further, the County Executive did not carry out a staff capacity assessment and rationalization.

Recommendation

There is a risk of paying dormant workers due to lack of defined needs. The County Executive should carry out a personnel need analysis so as to establish the optimal staff requirement.

6.0 Conclusion

The issues noted and raised may have adversely affected service delivery by the County Executive. Timely implementation of the recommendations will ensure better service delivery to the people of Kericho County, and accountability of the public funds.

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

Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

1 July 2015