

**REPUBLIC OF KENYA**



**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL OPERATIONS**

**OF**

**BUNGOMA 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 COUNTY EXECUTIVE OF BUNGOMA FOR THE PERIOD 1 JULY 2013 TO 30 JUNE 2014**

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## **Introduction**

The Auditor-General has the mandate under Article 229 of the Constitution to audit and report on the operations and accounts of the County Government to Parliament annually.

## **Audit Objectives**

The audit covered the County Executive and took into account transactions during financial period ended 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 the devolved functions and services.
- Confirm that key management positions have been competitively filled.
- IFMIS, G-Pay Systems are in place and operational.
- County Governments Policies Implementation
- Expenditure
- Revenue Records
- Cash and Bank Balances
- County Government Funds
- Human Resource Records
- IT Environment
- Non-Current Assets
- Devolved Funds
- Current Liabilities

## **Terms of Reference**

The Office of the Auditor-General is an independent office mandated by the constitution (Article 229) to audit the accounts of the National and County Government. In this regard the office planned an audit for the Bungoma County with the following term of reference:

- Verification of cash and bank transactions.
- Examination of transactions of the County Government and County Assembly during the period.
- The procurement procedures as per Disposal and Procurement Act, 2005 & Regulations, 2006
- Check Current debtors and suppliers records
- Implementation of the IFMIS and G-Pay as opposed to manual system
- Check the status and usage of the Motor vehicles and equipment IPPD Payrolls – Check for Ghost workers in payroll
- Irregular borrowings, overdrafts and payments of non-existing loans.

The audit was conducted in the month of May 2014 and February 2015.

## **Methodology**

The approaches used in carrying out this audit include the following;

- Interview with key officers at the County headquarters
- Review of applicable legislation and regulations
- Assessment of internal controls
- Examination of payment vouchers, cash book, vote book, bank statements, bankings slips, tender and contract documents, stores records and other related records.
- Review minutes for the meetings where there was resolution affecting management of cash
- Physical inspection/verification
- Verify the bank reconciliation statements for the period.

### **1.0 Key Audit Findings.**

#### **Oversight and Governance Structure**

- The draft Internal Audit charter is awaiting Audit Committee approval before adoption by the entity.
- The county government has not established an audit committee as required by the law.
- The management of the county government has not developed and implemented a risk management framework and policy to guide the achievement of strategic goals and objectives.

### **2.0 Information Technology**

The examination of ICT documents revealed the following anomalies

- i. Non-existence of an Information Technology strategic and steering committee
- ii. Failure to implement an IT strategic plan that supports business requirements and ensures that IT spending remains within the approved IT strategic plan.
- iii. Lack of training program to build IT capacity.
- iv. Lack of a formally documented and approved process to manage upgrades and system changes made to all financial / performance information systems.
- v. The backups were not stored in a secure offsite storage facility instead; they are retained within the Information and Communication Technology office.
- vi. Lack of a formally documented and approved user management standards and procedures in the organization.

- vii. Lack of documented schedule for routine maintenance for IT infrastructure.

### **3.0 Human Resource Management**

Evaluation of Human Resource Management Unit of County revealed the following anomalies

- i. Lack of approved authorized staff establishment, defined job descriptions and organizational chart that clearly defines the operation structure and reporting lines
- ii. Lack of approved scheme of service for all grades and entitlements
- iii. The county government incurred Kshs.6, 422,822.40 to pay casual staff. However, there was no policy in place on the selection criteria, terms of engagement and the level of benefit for the various categories of staff engaged.

### **4.0 Unsupported Payments - Kshs.3,500,000.00**

Examination of payment vouchers revealed that payments to a radio firm amounting to Kshs.3, 500,000.00 for talk shows from January to June 2014 were made without a contract agreement.

### **5.0 Irregular Direct Procurement - Kshs. 25,683,772.25**

It was observed that goods and services worth Kshs. 25,683,772.25 were procured through direct method of procurement, as opposed to use of open tender and request for quotations methods.

### **6.0 Procurements through Imprests - Kshs. 2,723,418.00**

Review of payment vouchers revealed that members of staff were advanced imprest of Kshs.2,723,418.00 for purchases of various items contrary to the existing financial regulations.

### **7.0 Irregular Variation in Contract Prices**

- i. Examination of tender documents relating to the partitioning works for county executive offices revealed that the original contract price of Kshs 8,379,065.12 was varied upwards to Kshs.14,216,324.32 by Kshs.5,837,259.20 or 70% instead of 25% of the original contract sum as required by the procurement regulations.
- ii. The contract amount for the pediatric ward was varied from Kshs.13,233,381.00 upwards to Kshs.25,030,279.36 by Kshs.11,796,898.36 or 90% of initial cost of the contract.
- iii. The construction of Kopsiro Model Health center was started in the year 2009 as part of the economic stimulus projects. The contract was awarded to a contractor on 17 December 2009 at a contract price of Kshs.16,200,000.00. The contract price was later varied to Kshs.21,200,000.00 which is 30.86% of the contract price. It was also noted

that the contractor was issued with two completion certificates on 25 February 2011. However, the contractor made a claim to be paid Kshs.7,220,651.52 for extra works which was paid by the county Government making the total cost of the project to Kshs.28,420,651.52 resulting a 75% of the total contract variation.

#### **8.0 Payments for Un-Delivered Goods - Kshs. 14,728,397.00**

The propriety of the payment amounting to Kshs.14,728,397.00 in respect of a coffee mill made to a cooperative union could not be ascertained as a visit to the proposed coffee factory at Chwele Sub County during the month of July 2014 revealed that the coffee mill has not been assembled, one year after it was delivered on 26 July 2013. The existence of the coffee mill could not be confirmed as the parts were alleged to be in the sealed container.

#### **9.0 Payments for Defective Goods - Kshs.3,396,000.00**

Slaughterhouse equipment worth Kshs.2,396,000.00 was purchased from a supplier. However, a visit to Bungoma sub-county slaughterhouse during the month of July 2014 revealed that 2 cattle cradles and 1 off-loading platform issued to the slaughterhouse were not in use since they were not in line with the specifications required to handle the tasks for which it was purchased. Further, 8 sterilizers worth Kshs.1,000,000.00 were purchased from the same supplier but had no power surge protectors as they blew off after a short use.

#### **10.0 Outstanding Imprests-Kshs.34,461,236.00**

Imprests amounting to Kshs.34,461,236.00 issued to various officers remained unsurrendered as at 19 June 2014.

#### **11.0 Under Collection of Local Revenue-Kshs.2,469,466,990**

Estimated collections in the approved budget should be realistic and achievable. The county budgeted to collect Kshs.1,470,854,962. However, review of revenue reports revealed that actual collections were Kshs. 182,853,678 representing approximately 12% leading to a shortfall of Kshs.1,288,001,284 and thus facing the risk of failure to meet the expenditure needs.

#### **12.0 Acquisition of Assets- Kshs. 457,556,293.00**

The County Government did not maintain an updated fixed asset register consisting of the assets' description, serial numbers, and value at purchase, depreciation value for the year, condition, current value and location for its fixed asset valued at Kshs 580,016,063.00. The amounts Kshs.457,556,293.00 and Kshs 122,459,770.00 relates to the financial years 2013-14 and 2012-2013 financial years respectively as disclosed in the notes to the financial statements.

In addition, no logbooks were availed for the motor vehicles valued Kshs 53,660,210.00 that were acquired during the year. The title deeds for all the land parcels owned were also not availed for audit verification.

Lastly, no handing over report for the assets taken over by the County Government of Bungoma from the defunct local authorities was availed.

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

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

**Nairobi**

**18 May 2015**





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

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## **DETAILED AUDIT FINDINGS**

### **1.0 Oversight and Governance Structure**

Section 155(1) of Public Financial Management Act, 2012 requires County Government entities to maintain appropriate internal auditing arrangements for conducting internal audit according to the guidelines of the Accounting Standards Board. In addition, Treasury Circular No.3/2009 provides that all accounting officers should develop and implement an institutional risk management policy framework in the public sector.

The Chief Internal Auditor has prepared a draft Internal Audit charter that is awaiting audit committee approval before adoption by the county executive. The management has not established an audit committee as required by the law. In addition, a risk management framework and policy to guide the achievement of strategic goals and objectives has not developed and implemented

The internal audit department may not be appropriately and effectively constituted to discharge its oversight mandate over the governance of the office.

#### **Recommendation**

- Establish the Audit Committee and appoint members to deliberate on and adopt its charter to ensure effective delivery of its mandate.
- Develop and implement a risk management and review framework and policy

### **2.0 Information Technology**

The county executive has not established an Information Technology strategic and steering committee. The management has not implemented an IT strategic plan that supports business requirements and ensures that IT spending remains within the approved IT strategic plan.

The management had not developed 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.

There was lack of a formally documented and approved user management standards and procedures in the organization as well as a documented schedule for routine maintenance for IT infrastructure

**Recommendation**

- Institute proper Information Technology controls to address the identified weaknesses
- Establish the IT strategic and steering committees

**3.0 Human Resource Management**

Section 149 (1) of the Public Financial Management Act, 2012 states that an accounting officer is accountable for ensuring that the resources are used in a way that is lawful and authorized; and effective, efficient, economical and transparent.

However, the county executive did not have an approved authorized staff establishment, defined job descriptions and organizational chart that clearly defines the operation structure and reporting lines. They also lacked an approved scheme of service for all grades and entitlements

The county government incurred Kshs.6,422,822.40 as summarized in the table below to pay casual staff. However, there was no policy in place on the selection criteria, terms of engagement and the level of benefit for the various categories engaged.

<b>Summary of Casual Wages</b>	
<b>Month</b>	<b>Amount in Kshs</b>
Jul-13	252,500.00
Sep-13	252,500.00
Nov-13	257,422.00
Dec-13	493,300.00
Jan-14	1,545,670.00
Feb-14	2,502,635.40
Jun-14	1,118,795.00
<b>Total</b>	<b>6,422,822.40</b>

**Recommendations**

- Finalize the rationalization process and establish the appropriate human resource policies and governance structure
- Put in place clear policies and guidelines on engagement of casual and temporary staff.

#### **4.0 Unsupported Payments-Kshs.3,500,000.00**

Examination of payment vouchers revealed that payments were made payments to Radio mambo amounting Kshs.3,500,000.00 for talk shows for the months between January to June 2014. However, no procurement documents were availed to support the contract.

#### **Recommendation**

Avail documentary evidence that the Kshs.3,500,000.00 incurred was properly and regularly incurred.

#### **5.0 Irregular Direct Procurement-Kshs. 25,683,772.25**

Section 74 of the Public Procurement and Disposal Act 2005 and section 62 of the Public Procurement and Disposal Regulations 2006 spells out the conditions to be met by a public entity to use the direct method of procurement. The procuring entity is further required to document the reason for using the direct method of procurement.

The executive procured goods and services totaling Kshs.25,683,772.25 were procured through direct method of procurement, as opposed to open tender and request for quotations methods. In these procurements, management did not satisfy the requirements for the use of direct procurement method, as prescribed under the Act and Regulations and therefore in breach of the procurement Act and regulations.

#### **Recommendation**

Explain the circumstances under which goods valued at a cost of Kshs.25,683,772.25 were procured without following procurement procedures prescribed in the Public Procurement Act 2005 and Regulations 2006.

#### **6.0 Procurements through Imprests-Kshs.2,723,418.00**

Review of payment vouchers revealed that members of staff were advanced imprest for purchases of various items against financial regulations amounting to Kshs.2,723,418.00 .

#### **Recommendation**

The head of procurement should take charge to ensure compliance with the public procurement and disposals act, 2005.

#### **7.0 Irregular Variation in Contract Prices**

Regulation 31 of the Public Procurement Rules and Regulations, 2013 requires that the cumulative value of all contract amendments shall not increase the total contract price by more than twenty five percent from the original contract sum.

Examination of tender documents relating to the partitioning works for county executive offices revealed that the original contract was varied upwards by 70% instead of 25% as

required by the procurement regulations. The original contract sum awarded to M/S Mukokwe Enterprises was Kshs.8,379,065.12 which was later varied upward to Kshs.14,216,324.32 a difference of Kshs.5,837,259.20.

The contract amount for the pediatric ward was also varied upwards by 90% from initial cost of Kshs.13,233,381.00 to Kshs.25,030,279.36 by Kshs.11,796,898.36.

The construction of Kopsiro Model Health center was started in the year 2009 as part of the economic stimulus projects. The contract was awarded to Ramagon construction company on 17.12.2009 at a contract price of Kshs.16,200,000.00. The contract price was later varied to Kshs.21,200,000.00 which is 30.86% of the contract price. It was also noted that the contractor was issued with two completion certificates on 25.02.2011. However the contractor made a claim to be paid Kshs.7,220,651.52 for extra works which was paid by the county Government making the total cost of the project to Kshs.28,420,651.52 resulting the total variation of the project to 75.44%.

The county government may have lost Kshs.24,854,809.08 arising from irregular contract variation.

### **Recommendation**

The responsible officers should be surcharged for any loss occasioned by the failure to comply with the provisions of procurement regulations on contract variation.

### **8.0 Payments for Un-Delivered Goods-Kshs.17, 452,397.00**

Section 149(2d) of the Public Financial Management Act, 2012 requires the accounting officer of County Government to ensure that all contracts entered into by the entity are lawful and are complied with.

Payment amounting Kshs.14,728,397.00 in respect of a coffee mill to Bungoma County Cooperative Union Limited could not be ascertained as a visit to the proposed coffee factory at Chwele Sub County during the month of July 2014 revealed that the coffee mill has not been assembled, one year after it was delivered on 26th July 2013. We could also not verify existence of the coffee mill as the parts were alleged to be in the sealed container.

Public funds totalling Kshs.17,452,397.00 may have been lost through payments for undelivered goods

### **Recommendation**

The procurement office should explain the whereabouts of the goods that were paid for.

### **9.0 Payments for Defective Goods-Kshs.3, 396,000.00**

Section 149(2d) of the Public Financial Management Act, 2012 requires the accounting officer of County Government to ensure that all contracts entered into by the entity are lawful and are complied with.

Slaughterhouse equipment worth Kshs.2, 396,000.00 was purchased from Chemiatry enterprises. However, a visit to Bungoma sub-county slaughterhouse during the month of July 2014 revealed that 2 cattle cradles and 1 off-loading platform issued to the slaughterhouse were not in use since they were not in line with the specifications required to handle the tasks for which it was purchased. Further, 8 sterilizers worth Kshs.1, 000,000.00 were purchased from Chemiatry enterprises but had no power surge protectors since they blew off after a short use.

Public funds totalling Kshs.3,396,000.00 may have been lost through payments for defective goods

### **Recommendation**

The procurement office should explain the whereabouts of the goods that were paid for.

### **10.0 Outstanding Imprests-Kshs 34,461,236.00**

Treasury Circular No. 3/2010 of 7th May 2010 provides that temporary imprests should be surrendered within 48 hours of officer's return to work station.

Imprests amounting Kshs 34,461,236.00 issued to various officers that remained unsurrendered as at 26<sup>th</sup> February, 2015 and have thus been are held by staff members for unnecessarily long periods.

### **Recommendation**

Recover from the staff members the long outstanding imprest held by them and ensure that no imprest is issued to an officer before an earlier imprest issued to him is surrendered.

### **11.0 Under Collection of Other Receipts-Kshs. 1,288,001,284.**

Estimated collections in the approved budget should be realistic and achievable. The county budgeted to collect Kshs.1,470,854,962. However, review of revenue reports revealed that actual collections were Kshs. 182,853,678 representing approximately 12% leading to a shortfall of Kshs.1,288,001,284 and thus facing the risk of failure to meet the expenditure needs.

### **Recommendation**

Avail the revised revenue estimates

## **12.0 Acquisition of Assets- Kshs. 457,556,293.00**

Section 149(20) of the Public Financial Management Act requires the accounting officers designated for county government entities to ensure that the respective county government entity has adequate systems and processes in place to plan for, procure, account for, maintain, store and dispose of assets, including an asset register that is current, accurate and available to the relevant County Treasury or the Auditor-General.

The County Government did not maintain an updated fixed asset register consisting of the assets' description, serial numbers, and value at purchase, depreciation value for the year, condition, current value and location for its fixed asset valued at Kshs 580,016,063.00. The amounts Kshs 457,556,293.00 and Kshs 122,459,770.00 relates to the financial years 2013-14 and 2012-2013 financial years respectively as disclosed in the notes to the financial statements.

In addition, no logbooks were availed for the motor vehicles valued at Kshs 53,660,210.00 that were acquired during the year. The title deeds for all the land parcels owned were also not availed for audit verification.

Lastly, no handing over report for the assets taken over by the County Government of Bungoma from the defunct local authorities was availed.

### **Recommendation**

- i. Maintain an asset register that is current, accurate
- ii. Avail the ownership documents for all the motor vehicles and land owned

## **Conclusion**

The County Government Executive faced several challenges in the year of operation. The taking over of assets and liabilities has not been finalized. The setting of structures, systems of governance and staffing took long and was slow.

The County Government should however ensure full control of functions, enhanced revenue collection, competitive staffing and strengthen the Internal control mechanism for proper and effective accountability of resources.



**Edward R. O. Ouko, CBS**  
**AUDITOR-GENERAL**  
**18 May 2015**

**Nairobi**