

REPUBLIC OF KENYA



REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL OPERATIONS

OF

BUSIA 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 THE COUNTY ASSEMBLY OF BUSIA 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 of the National and County Governments under Article 229 of the Constitution and the Public Audit Act, 2003. The Special Audit has been completed in accordance with Section 229 of the Constitution of Kenya.

Audit Objectives

The audit covered the County Assembly of Busia and took into account transactions before, during and after the transition period up to the audit time in May 2014.

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

- Verification of cash and bank transactions.
- Examination of transactions of the County Assembly during the period.
- The procurement procedures as per 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.
- Non-current assets

Methodology

The approaches used in carrying out this audit included 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, banking 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.

The audit was conducted and concluded in the month of May - June 2014.

Key Audit Findings

1.0 IT Internal Control Environment

Information Technology (IT) management was not supported by an established IT strategic committee and IT steering committees. Further, there were neither documented tested emergency procedures to provide guidelines for emergency response nor any off-set ICT continuity and disaster recovery plan to cater for disaster management.

2.0 Internal Audit and Audit Committees

The internal audit function was not supported by an established audit committee and an approved risk management framework. Further, the internal audit department operated without an approved annual audit plan or audit charter.

Internal audit work for the year was not supported by an approved audit plan.

3.0 Human Resource Management and Payroll

3.1 Excess Employment of Sixty Nine (69) Employees

The County Assembly employed one hundred and twenty (120) during the month of February 2014 against the advertised fifty one (51) positions leading to excess employment of sixty nine (69) staffs.

Information provided indicated that the County Assembly Service Board increased the number of staff to be recruited from fifty one (51) positions which had been advertised despite a cautionary advise from the secretary to the board over the financial implications Refer to Min CASB 31/01/2014 and Min CASB 63/01/2014 of 20th January, 2014 and 23rd January, 2014 respectively.

3.2 Performance Management

The County Assembly had not established the required performance management plan. Further, there was no evidence of staff performance appraisal reports during the year.

3.3 Travelling and Accommodation Expenses

(i) Irregular Advancing of Imprests

Imprests were issued to members of staff/Members of County Assembly (MCAs) before they fully disclosed the required details. Only names were given. Job groups and the related designations, rate of advancing imprest, estimated number of days and destinations were not.

No detailed work-plans were submitted for approval. The ones availed were in summary form and were prepared by the Finance Officer and approved by the Clerk.

They did not originate from the respective members of staff /MCAs.

Imprests were issued using payment vouchers instead of the standard Imprest Warrant i.e.F.0.24 (Revised) books. At the time of audit, there was a stock of such books but no reason was given as to why they were not being used.

(ii) Failure to Maintain Imprest Register

The Assembly did not maintain an Imprest Register, though they had acquired a standard one. However, amounts of imprest advanced to various officers were not noted therein. This meant that the imprest holders were not treated as staff debtors upon being advanced with imprest.

(iii) Imprest Surrenders/Claims not properly Supported

An examination of payment vouchers for travelling and accommodation, advances and imprests showed that there was lack of travel documents for journeys made in and out of the country.

Some payment vouchers used to make claims for local travelling and accommodation had no supporting documents amounting to Kshs.786,500.00.

Work-plans for external travels showed only the destination country. They did not show the purpose of going there and the estimated number of days as required by the prevailing government regulations. A sample of imprests amounting to Kshs.2,386,751.00 said to have been surrendered but lacking evidence as to the purpose for which the foreign trips were made.

4.0 Payments of Advance Sitting Allowances

The County Assembly expended a total of kshs.74,076,764.00 on account of sitting allowances to members of the county assembly. In 4 months during the year, members appear to have been paid for more than 32 sittings allowed by the Salaries and Remuneration Commission leading to excess payment among other anomalies.

A sample of payment vouchers showed that most Members of County Assembly were paid their sitting allowances as advances without reference to advance policy. Further they were issued with additional advances before full recoveries were made for earlier issues. No evidence of recoveries was made available for audit verification.

5.0 Fuel Management

During the period between July 2013 and January 2014 the Assembly did not tender for the supply of fuel and lubricants. Purchase of fuel was done on cash basis by drivers and owners of the private motor vehicles as and when need arose.

Fuel amounting to Kshs.421,814.56 was not entered in the work tickets.

Further, work tickets were also poorly maintained; there were no summary on the work ticket showing total fuel / oil drawn, total distance covered and miles per litre of fuel /oil utilized.

Fuel amounting to Kshs.484,814.56 was drawn by motor vehicles which did not belong to the Assembly

6.0 Revolving Fund

The fund had received Kshs.112,949,842.00 out of which an amount of Kshs.44,636,814.00 was disbursed as loans and mortgage to Members of County Assembly and Staff. Recoveries made amounted to Kshs.21,324,555.80. However, the following shortcomings were noted with regard to the administration of the fund;

- No contract/agreement was signed between parties.
- Ownership documents for mortgage and car were not in Joint names of borrower and lender as per the regulations
- Charge the asset to secure the loans was not made.
- Loans Management Committee minutes were not availed for audit review.
- Names of loanees who had not submitted the security were as listed
- It was noted that beneficiaries for loans were mainly from the MCAs.



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 BUSIA FOR THE PERIOD 1 JULY 2013 TO 30 JUNE 2014

Detailed Audit Findings

Internal Controls

1.0 IT Internal Control Environment

The Control Objectives of Information Technology (COBIT) business processes require organizations to perform the following in respect of their IT internal control environment;

- Manage the IT investment;
- Communicate management aims and direction;
- Manage IT Human resources;
- Manage quality;
- Manage projects;
- Manage changes;
- Define and manage service levels;
- Manage third party services; and
- Monitor and evaluate IT performance.

Information Technology (IT) management was not supported by an established IT strategic and IT steering committees. Further, there were neither documented tested emergency procedures to provide guidelines for emergency response nor any off-set ICT continuity and disaster recovery plan to cater for disaster management. IT governance may be compromised through inadequate policy frameworks and budget provisions. Financial loss may rise due to inadequate response to emergency on disaster occurrence.

The Assembly is in the process of establishing its own IT strategic committee and IT steering committee to help in the governance of IT. This will set out the IT strategic plan and policies and procedures.

Recommendations

- The Assembly should establish an IT strategic committee and IT steering committee to be responsible for the IT governance.
- The entity should also establish a documented tested emergency procedure to provide guidelines for emergency response

2.0 Internal Audit and Audit Committee

Treasury Circular No. 16/2005 of Ref: No. MOF/IAG/GEN/055/ (16) dated 4th October, 2005 and Circular No. 3/2009 of Ref: No. MOF/IAG/033/(75) dated 23rd February, 2009 provided guidelines for the development of efficient and effective internal audit functions in the public service through sound Risk Management Policy Framework and a competent audit committee with oversight role.

The internal audit function of the County Assembly was not supported by an established audit committee and an approved risk management framework. Further, the internal audit department operated without an approved annual audit plan or audit charter. Internal audit work for the year was not supported by an approved audit plan.

The Assembly may not achieve the desired efficiency and effectiveness in the delivery of its mandate. Further, financial loss may occur due to fraud and errors that may go undetected. The Assembly risks consequences due to non-compliance with the law.

Recommendations

- The Assembly should establish an audit committee as required and develop and implement its Institutional Risk Management Policy Framework (IRMPF) in accordance with the guidelines provided in the Treasury Circular No. 3/2009 of Ref: No. MOF/IAG/033/ (75) dated 23rd February, 2009.
- The County Assembly shall establish an internal audit committee and improve on the management of internal audit function

3.0 Human Resource Management and Payroll

Corporate governance principles require cost effectiveness and efficiency in human resource management. Section 5.10 of Government Financial Regulations and Procedures provides the criteria for the processing of computer payrolls. All the payments of salaries for all officers other than casuals and works paid staff should be processed through Integrated Personnel Payroll Data (IPPD) program. Section C of the County Public Service Human Resource Manual of May, 2013 requires a definite reporting and approval of vacancies for recruitment of County Government Public Service staff

3.1 Excess Employment of Sixty Nine (69) Employees

The County Assembly employed one hundred and twenty (120) staff during the month of February 2014 against the advertised fifty one (51) positions leading to excess employment of sixty nine (69) staff at a cost of Kshs.717,250 between February to June 2014. Information provided indicated that the County Assembly Service Board increased the number of staff to be recruited from fifty one (51) positions which had

been advertised despite a cautionary advise from the secretary to the board over the financial implications – Refer to Min CASB 31/01/2014 and Min CASB 63/01/2014 of 20th January, 2014 and 23rd January, 2014 respectively. A report of subsequent proceedings of the County Assembly dated 28th March 2014 indicating supplementary budgetary provision for new employees was not supported by minutes by of the County Public Service Board rendering such explanation unsatisfactory. The legality of any post approval of recruitment by the assembly could also not be confirmed.

Recommendations

- The County Assembly should review the decision by exploring the available provisions of laws governing such employment to relief the county of the cost of Kshs.15,717,250 for the months February to June 2014.
- The excess recruitment may not be sustainable financially and the county assembly should mitigate against this appropriately to safe the county the cost of Kshs.3,143,450 per month.

3.2 Performance Management

Section C of the County Public Service Human Resource Manual of May, 2013 requires the County Executive Committee to design a performance management plan to evaluate performance of the county public service and the implementation of county policies as provided for in Section 47 of the County Assembly Act. The plan sets out the criteria for performance appraisal.

The purpose of performance appraisal is to assess as comprehensively and objectively as possible the officer's performance against set targets and is aimed at the realization of the overall departmental objective. The County Assembly had not established the required performance management plan. Further, there was no evidence of staff performance appraisal reports during the year.

Recommendations

- The Assembly should establish performance management plan to evaluate performance of the county public service and the implementation of county policies as provided for in Section 47 of the County Assembly Act.
- The County Assembly should avoid non compliance with Section C of the County Public Service Human Resource Manual of May 2013
- The Assembly should be able to efficiently manage and improve performance in the county public service
- Staff performance appraisal should be carried out at regular intervals during the financial year.

4.0 Foreign Travels

- Government financial regulations chapter 5.5.15 requires payments should be entered in the vote book and appropriate certificate be completed. Sec 5.5.14 also requires that a budget should exist to cover any expenditure before any commitment is made while chapter 5.3.3 gives the standard expenditure codes for financial management and control of expenditure.
- Records availed to us indicate that the county assembly incurred expenditure amounting in total to Kshs.11,989,875.00 on foreign travel by members of the County Assembly. The audit reveal the following unsatisfactory matters concerning this expenditure;
- It was found out that all the payments related to foreign travel did not contain vote book voucher numbers and have not been charged to any account in the vote book.
- A perusal of the county governments' budget and subsequent financial statements submitted for audit revealed that there was no allocation on foreign travel neither was the sum paid from this account reflected in the financial statements.
- Most recipients of the payments out of foreign travel account did not acknowledge receipt of the funds by signing in in the relevant sections of the vouchers
- Personal numbers and designations of recipients have not been indicated in vouchers.
- Some vouchers submitted for audit were photocopies of the originals therefore their authenticity could not be ascertained.
- Supporting documents such as air tickets and the copies of officers' passports could not be matched to the payments. Although a file containing copies of passports and air tickets was later handed over to the audit team, they for unexplained reasons could not be matched with relevant vouchers.
- It's therefore not clear from which account the payments on foreign travel was sourced from and whether the requisite approval was obtained from the controller of budget. Failure to indicate personal numbers and designations of the officer travelling make it impossible to know if they were government officers and whether the rates paid were their justifiable entitlement
- Failure to charge expenditure into the vote book make it impossible to ascertain as to which account the expenditure was charged to.
- Failure to attach supporting documents such as air tickets and the copies of officers passports to payments vouchers make the payment incomplete contrary to section 5.5.14(d) which require that vouchers should be complete in all aspects before payment is made.

- Failure to maintain the original vouchers puts the authenticity of the payments in question.

Recommendation

- The unsupported amount of Kshs.11,989,875.00 incurred on foreign travel should be recovered from the respective payees.
- Expenditure should always be budgeted and charged to the relevant votes and all appropriate supporting documents attached.
- All payments should be supported by duly authorized and processed payment vouchers.

5.0 Irregular advancing of imprests

According to Treasury Circular 3/2010 of 7 May, 2010, one of the issues of main concern regarding the administration of imprests is ``Approval of imprests by Accounting Officers before such requests have been subjected to examination for eligibility.``

Imprests were issued to members of staff/Members of County Assembly (MCAs) before they fully disclosed the required details. Only names were given. Job groups and the related designations, rate of advancing imprest, estimated number of days and destinations were not.

No detailed work-plans were submitted for approval. The ones availed were in summary form and were prepared by the Finance Officer and approved by the Clerk. They did not originate from the respective members of staff /MCAs as required.

Imprests were issued using payment vouchers instead of the standard Imprest Warrant i.e.F.0.24 (Revised) books. At the time of audit, there was a stock of such books but no reason was given as to why they were not being used. They were as shown in the Table below;

No.	Serial numbers	
	From	To
(1)	1961301	1961350
(2)	1961351	1961400
(3)	1961401	1961450
(4)	1961451	1961500

- According to section 152(2) of The Public Finance Management Act, 2014, ``The power to authorize cash advances is subject to any limitations imposed by the regulations. `` Therefore each application for imprest should have all the relevant particulars of the applicant(s) and a detailed work-plan from the respective

officers/MCAs before approval and eventual advancing of imprest. Only official Imprest Warrants (F.O.24 (Revised)) should be used to advance imprests.

- The County Assembly should cease flouting the prevailing public service regulations governing administration of cash advances (imprests).

5.1 Failure to Maintain Imprest Register

According to Section 149(2)(b) of The Public Finance Management Act, 2014, ``In carrying out a responsibility imposed by subsection (1), an Accounting Officer shall, in respect of the entity concerned-ensure that the entity keeps financial and accounting records that comply with the Act.``

The Assembly did not maintain an Imprest Register, though they had acquired a standard one. However, amounts of imprest advanced to various officers were not noted therein.

Recommendations

- All imprests advanced during the financial year should be noted in the Imprests Register under each individual officer`s/MCA`s folio. Thereafter the related entries of surrender/accountability/recovery should be made in the corresponding folios so as to show the correct position of each imprest holder.
- Each entry in the imprest register should have a corresponding reference document number e.g. payment voucher number for imprests actually expensed, receipt number for cash surrendered back and payroll month for imprest recovered from the officer`s/MCA`s salary.
- Imprest holders should be treated as staff debtors upon being advanced with imprest

5.2 Imprest Surrenders/Claims Not Properly Supported

The Public Finance Management Act, 2014 under Section 152(4) states that, ``A public officer shall return the balance of the cash advance together with signed supporting documents for the cash expended in accordance with any requirements set out in particular circumstances;-``

An examination of payment vouchers for travelling and accommodation, advances and imprests showed that there was lack of travel documents for journeys made in and out of the country.

Some payment vouchers used to make claims for local travelling and accommodation had no supporting documents amounting to Kshs.786,500.00.

Work-plans for external travels showed only the destination country. They did not show the purpose and the estimated number of days as required by the prevailing government regulations. A sample of imprests amounting to Kshs.2,386,751.00 said to have been surrendered but lacking evidence as to the purpose for which the foreign trips were made.

Recommendations

- Every claim/accountability for travelling and accommodation should be adequately supported with all relevant documents before it is accepted by the Accounting Officer.
- Claims where value for money was not obtained should not be accepted for surrender of imprests.

6.0 Nugatory Expenditure-Sitting Allowances

Sitting allowances should be paid based on the number of sittings as per attendance register, period and the minutes of the meetings held.

The Assembly paid a total amount of Kshs74,076,764.00 to members of the County Assembly as sitting allowances according to a Management Report availed even though payment vouchers verified added up to only Kshs.72,647,293.25 giving an unexplained difference of Kshs.1,429,470.75 .This implies that some vouchers may not have been availed for audit. Further, the payment vouchers availed lacked such necessary details as specifications as to dates, months and nature of committees paid for rendering it impossible to confirm the authenticity and correct measurement of the payments.

Given the maximum number of 32 sittings allowed at an average rate of Kshs 4,500.00 per sitting for the total 54 members of the County Assembly including the speaker, the maximum payable allowances per month should not exceed Kshs.7,776,000.00

The schedule availed adding up to kshs.74,076,764.00 indicate that in the months of February, April, May and June the total allowances paid exceeded the above limit by a total of Kshs. 4,112,946.00 as detailed below;

Month	Amount Paid(Kshs)	Max. Allowed(Kshs.)	Excess(Kshs.)
February	8,870,600.00	7,776,000.00	1,094,600.00
April	8,023,100.00	7,776,000.00	247,100.00
May	8,737,300.00	7,776,000.00	961,300.00
June	10,669,600.00	7,776,000.00	2,893,600.00

TOTAL			4,112,946.00
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The audit also revealed that the month of April is listed as one of those where there was overpayment even though 13 members of the budget committee including among others the clerk to the County Assembly were in South Africa for a seminar for approximately seven days during which they were paid subsistence allowance.

We could not confirm the accuracy and authenticity of the payments and It would therefore appear that members of the county assembly were paid for sittings that never took place thus loss of public funds. Exceeding the number of sittings allowed is irregular.

Recommendations

Ensure that all the sitting allowance details are included on the payment vouchers and do a reconciliation of the varied amounts or otherwise recover amounts paid without necessary details. The amounts paid in excess of maximum allowed be recovered from the payees and the authorizing officers.

7.0 Payments of Sitting Allowances in advance

Sitting allowances are not permanent and regular remuneration for which no advances should be made as a guarantee of recovery

A sample of payment vouchers showed that most Members of County Assembly were paid their sitting allowances as advances without reference to advance policy. Further, they were issued with additional advances before full recoveries were made for earlier issues. No evidence of recoveries was made available for audit verification.

Recommendations

- Ensure that there is an advance policy in place.
- Recover all advances made within the year.
- Advance only against planned meetings to avoid experiencing cash flow challenges

8.0 Fuel Management

The Public Procurement Regulations, 2006 Section 8.3(k) provides that the role of procurement department includes among others, preparing contract documents, in line with the award decisions.

Code of Regulations, 2006 Section K.11 on transport work ticket (GP.26) requires compulsory use of work tickets on government vehicles. Also a summary of fuel, oil and distance travelled, will be entered, with the relative work ticket number, in the vehicle

log-book on completion of each such ticket or at the end of each month should a ticket remain incomplete at the end of that month.

Best practice requires that all government entities should only fuel official motor vehicles.

- During the period between July 2013 and January 2014 the Assembly did not tender for the supply of fuel and lubricants. Purchase of fuel was done on cash basis by drivers and owners of the private motor vehicles as and when need arose.
- Fuel amounting to Kshs.421,814.56 was not entered in the work tickets.
- Work tickets were also poorly maintained; there were no summary on the work ticket showing total fuel / oil drawn, total distance covered and miles per litre of fuel /oil utilized.
- Fuel amounting to Kshs.484,814.56 was drawn by motor vehicles which did not belong to the Assembly
- Value for money may not have been obtained since these services might not have been sought from the cheapest service providers as required by the Public Procurement and Disposal Regulations, 2006.
- Fuel not entered into the work tickets makes it difficult to account for the fuel drawn and also exposes the assembly's' funds to theft, pilferage, collusion and other malpractices.
- Lack of efficiency tests based on fuel drawn recorded in the work ticket and kilometers covered for a given period makes it difficult to confirm the utilization of fuel by the vehicles.
- In cases where fuel is drawn by private motor vehicles efficient and economic usage of public funds may be compromised.

Recommendations

- Ensure that Public Procurement and Disposal Act, 2005 and the corresponding regulations are adhered to and also that supply of fuel is done through award of tenders by competitive bidding.
- All fuel drawn should be entered into the work tickets and also efficiency tests be done on fuel consumed to eradicate pilferage and theft of fuel by dishonest employees.
- Record use fuel in the work tickets appropriately
- Recover all the fuel consumed by private and unauthorized vehicles
- A contract for lease of private vehicles should be entered into whenever private vehicles are required to control usage for efficiency and effectiveness

9.0 Revolving Fund

The County Assembly of Busia Revolving Fund Act, 2013 and Regulations requires that the financial charge be made on assets, ownership documents to bear joint names of

both names of the Assembly and the loanee, members of the fund be Members of the County Assembly (MCAs) and staff among others,

The fund had received Kshs.112,949,842.00 out of which an amount of Kshs.44,636,814.00 was disbursed as loans and mortgage to Members of County Assembly and Staff. Recoveries made amounted to Kshs.21,324,555.80. However, the following shortcomings were noted with regard to the administration of the fund;

- No contract/agreement was signed between the parties.
- Ownership documents for mortgage and car were not in Joint names of borrower and lender as per the regulations
- No Charging of the asset was done to secure the loans.
- Loans Management Committee minutes were not availed for audit review.
- Names of loanees who had not submitted the security were as listed
- Mostly MCAs benefited from the loans issued.

Recommendations

- All disbursements should be based on duly signed contracts/agreements
- Have joint ownership documents.
- Make financial charges on the loans.
- Award of loans be fairly done to both members be they staff or MCAs

10.0 Unsupported mileage Claims

At the time of audit, supporting documents for expenditure on mileage claims amounting to kshs.1,835,196.00 did not indicate the specific home areas for members.

The total effect of the discrepancies could not be quantified.

Conclusion

The County Assembly should strive to adhere to the Public Financial Management Act, 2012 and the constitution in its financial operations to enhance effective service delivery to the residents and involve public participation.

The above matters clearly indicate that the County Assembly faced several challenges in the first 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 Assembly should however ensure full control of functions, enhanced expenditure control, competitive staffing and strengthen the Internal control mechanism for proper and effective accountability of resources.

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