

REPUBLIC OF KENYA



**REPORT
OF THE
AUDITOR-GENERAL
ON THE
FINANCIAL OPERATIONS
OF
ELGEYO MARAKWET COUNTY EXECUTIVE
FOR THE PERIOD
01 JULY 2013 TO 30 JUNE 2014**

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REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL OPERATIONS OF THE ELGEYO MARAKWET COUNTY EXECUTIVE FOR THE PERIOD 01 JULY 2013 TO 30 JUNE 2014

EXECUTIVE SUMMARY

Introduction

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. Further, the Constitution and Section 107 of the Public Finance Management Act, 2012 requires the County Treasury to adhere to the principles of public finance.

Audit Objectives

The objective of the audit was to ensure existence of internal controls for proper accountability of public resources, confirm that procurement of goods, works and services was done in accordance with the Public Procurement and Disposal Act, 2005 and related regulations and that public funds have been utilized effectively and in accordance with the law.

KEY AUDIT FINDINGS

1.0 Construction of County Headquarter's Office Block

1.1 Splitting of Tender

Records availed for audit review reflected that a contract for the construction of office block for the County Executive at Iten town was split into five whereby the supply of labour service contract was awarded to a company based in Iten town at a cost of Kshs.4,359,580, while the supply of construction materials was awarded to four (4) other lowest evaluated bidders in each item and had been estimated by the county engineer to cost Kshs.15,569,930 bringing the budgeted cost of construction to Kshs.19,929,510. Splitting of the tender contravened Section 30(1) of the Public Procurement and Disposal Act 2005 which states that no procuring entity may structure procurement as two or more procurements for the purpose of avoiding the use of procurement procedure. The cost of the office block is above the thresh hold of Kshs.6,000,000 and which is recommended for an open tender under the Public Procurement and Disposal Act, (County Governments) Regulations 2013. Therefore, the County Executive ought to have used a national open tender method instead of request for quotation method.

Further, a review of contract agreement signed on 28 June 2013 between the contractor and the County Executive revealed that a contract period was not indicated and therefore the commencement and completion dates could not be

determined. The management has not provided justification for splitting the contract and failure to provide the two crucial dates in the contract.

1.2 Cost Overrun

Documents availed for audit review reflected that although the budgeted amount for the office block was Kshs.19,929,510, the management ended up making payments totalling to Kshs.28,438,596 as at 30 June 2014 hence exceeding the budgeted amount by Kshs.8,509,086 or 42.6%. It is not clear and the management has not explained what caused the cost overrun and why the tender was not re-advertised in line with the Public Procurement and Disposal Act, 2005 and the related regulations in that any contract variation above 25% of the contract price be re-advertised. An audit inspection carried out in July 2014 on the progress of the construction revealed that the building was about 90% complete, and therefore the total cost may even exceed 42.6% after the final payment. Consequently, the County Executive was in breach of the law.

1.3 Expenditure on Supply of Materials

An audit review of payments made to various suppliers of construction materials for the office block revealed that payments totalling to Kshs.17,961,759 were not supported with Local Purchase Orders (LPOs) and counter receipt vouchers (S13). As a result, it could not be established whether the County Executive received the materials it paid for. Although inspection and acceptance committee issued certificates for the materials, it was not confirmed on what basis the certificates were issued in absence of purchase orders and counter receipt vouchers specifying the quantity and type of materials supplied.

2.0 Recruitment of New Staff

During the period under review, the County Executive recruited one hundred and forty four (144) officers comprising of fifty five (55) senior management staff and eighty nine (89) casual/temporary staff, with a total monthly basic pay for the officers of Kshs.6,142,691. However, evaluation and interview score sheets for all officers were not made available for audit verification. As a result, it could not be established whether the process used was transparent and fair in line with the Constitution.

3.0 G-Pay Payment System

A review of bank reconciliation statements indicated that in the months of January 2014 to March 2014, Iten Hospital, Kenya Power and Lighting Company Limited and an individual were paid a total of Kshs.1,938,589 through Real Time Gross Settlement (RTGS) ref: 54, 388 and 345. Further, during the same dates except for Kenya Power and Lighting Company which was on a different date, the same payments were made through RTGS ref: 59, 448 and 356 resulting to double payments. Apart from failure to provide reasons for the double payments, no excess payment recoveries had been made as at the time of this audit.

4.0 Outstanding Imprests

Examination of imprest records maintained by the County Executive revealed that imprests totalling to Kshs.12,668,631 which ought to have been surrendered by 30 June 2014 were still outstanding. Some of the imprests dated back to 1 November 2013. It was further observed that several officers were issued with multiple imprest before having accounted for balances previously issued contrary to Section 5.6.6 of Government Financial Regulations and Procedures which prohibit issuance of additional imprest to an officer before the first imprest is surrendered or recovered in full.

5.0 Cashbooks and Bank Reconciliation Statements

The County Executive operated nineteen (19) bank accounts comprising of four (4) at the Central bank and fifteen(15) at the Kenya Commercial bank with a total credit balance of Kshs.2,198,967 as at 30 June 2014. However, the respective cashbooks and monthly bank reconciliation statements for all the fifteen (15) bank accounts maintained at Kenya Commercial bank were not availed for audit review. As a result, the validity and completeness of transactions carried out through the bank accounts could not be confirmed as at 30 June 2014.

6.0 Hire of Excavator and Lorry for Construction of Tabar Dam

6.1 Single Sourcing of Machines

A review of available records maintained at the County Executive revealed that a contractor was paid Kshs.2,856,850 on 3 June 2014 for hire of excavator and tipper lorry used in removing silt at Tabar Dam in Rimoi National Game Reserve which is managed by Kenya Wildlife Service(KWS). The works combined both the hire of machine (outsourced) and supply of fuel for the machines in contravention of Section 30(1) of the Public Procurement and Disposal Act, 2005. However, no documents were provided to indicate the actual amount spent on fuel for the hired machines.

Further, the contractor was not one of the pre-qualified firms by the County Tender Committee. The tender committee however, adopted tender minutes for Kenya Rural Roads Authority (KERRA) in awarding the contract, as indicated in minute No.35/07/02/014 of 6 February 2014. No request for quotations were issued to at least three firms hence the service was single sourced contrary to Section 74 of the Public Procurement and Disposal Act, 2005. In addition, no contract agreement was signed between the County Executive and the contractor.

6.2 Irregular Order

According to letter Ref No.RM/KERRA/VOL.1/6 of 25 April 2014 attached to the payment voucher No.D82, the works at the dam commenced on 4 February 2014. However, Local Service Order No.0893600 was issued on 26 May 2014 while invoice was raised by the contractor on 5 May 2014, an indication that the order was irregularly raised after completion of works.

6.3 Tender Documents and Payments

It was also noted during the audit that relevant tender documents were not provided for audit review including requisition note for hire of machine by user department, authority letter from Tender Committee requesting KERRA for use of their list of pre-qualified suppliers, Certificate of Inspection and Acceptance Committee confirming that works were actually carried out, work tickets, payment vouchers and fuel detailed orders indicating fuel drawn by the hired machinery.

Further, no specific budgetary allocation was provided for the works in 2013/2014 budget and was not included in the annual procurement plan.

Consequently, the propriety of the payment amounting to Kshs.2,856,850 could not be confirmed as at 30 June 2014.

7.0 Partly Supported Expenditure

Examination of payment vouchers for the period under review revealed that payment vouchers amounting to Kshs.2,877,298 were processed without adequate and valid supporting documentation contrary to Section 5.5.13 of the Government Financial Regulations and Procedures. Consequently, the validity of the payments could not be confirmed as at 30 June 2014.



Edward R.O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

19 May 2015

DETAILED REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL OPERATIONS OF THE ELGEYO MARAKWET COUNTY EXECUTIVE FOR THE PERIOD 01 JULY 2013 TO 30 JUNE 2014

Detailed Audit Findings

1.0 Construction of County Headquarter's Office Block

1.1 Splitting of Tender

Records availed for audit review reflected that contract for the construction of office block for the County Executive at Iten town was split into five in that, the supply of labour service contract was awarded to a company based in Iten town at a cost of Kshs.4,359,580, while the supply of construction materials was awarded to four (4) other lowest evaluated bidders in each item and had been estimated by the county engineer to cost Kshs.15,569,930 bringing the budgeted cost of construction to Kshs.19,929,510. Splitting of the tender contravened Section 30(1) of the Public Procurement and Disposal Act 2005 which states that no procuring entity may structure procurement as two or more procurements for the purpose of avoiding the use of procurement procedure. The cost of the office block is above the thresh hold of Kshs.6,000,000 and which is recommended for an open tender under the Public Procurement and Disposal Act, (County Governments) Regulations 2013. Therefore, the County Executive ought to have used a national open tender method instead of request for quotation method.

Further, a review of contract agreement signed on 28 June 2013 between the contractor and the County Executive revealed that a contract period was not indicated and therefore the commencement and completion dates could not be determined. The management has not provided justification for splitting the contract and failure to provide the two crucial dates in the contract.

1.2 Cost Overrun

Documents availed for audit review reflected that although the budgeted amount for the office block was Kshs.19,929,510, the management ended up making payments totalling to Kshs.28,438,596 as at 30 June 2014 hence exceeding the budgeted amount by Kshs.8,509,086 or 42.6%. It is not clear and the management has not explained what caused the cost overrun and why the tender was not re-advertised in line with the Public Procurement and Disposal Act, 2005 and the related regulations in that any contract variation above 25% of the contract price be re-advertised. An audit inspection carried out in July 2014 on the progress of the construction revealed that the building was about 90% complete, and therefore the total cost may even exceed 42.6% after the final payment. Consequently, the County Executive was in breach of the law.

Recommendation

The management should justify the cost overrun and ensure future procurement are carried out in line with the Public Procurement and Disposal Act 2005. Proper planning should also be instituted during initiation of projects to avoid cost overruns or stalled projects.

1.3 Expenditure on Supply of Materials

An audit review of payments made to various suppliers of construction materials for the office block revealed that payments totalling to Kshs.17,961,759 were not supported with Local Purchase Orders (LPOs) and counter receipt vouchers (S13). As a result it could not be established whether the County Executive received the materials it paid for. Although inspection and acceptance committee issued certificates for the materials, it was not confirmed on what basis the certificates were issued in absence of purchase orders and counter receipt vouchers specifying the quantity and type of materials supplied.

Recommendation

The County Government should comply with the Public Procurement and Disposal Act, 2005 and related 2013 regulations in procurement of goods, works and services. The relevant procurement documents like the LPOs and receipt vouchers for all materials procured should also be made available for audit verification.

2.0 Recruitment of New Staff

During the period under review, the County Executive recruited one hundred and forty four (144) officers comprising of fifty five (55) senior management staff and eighty nine (89) casual/temporary staff, with a total monthly basic pay for the officers of Kshs.6,142,691. However, evaluation and interview score sheets for all officers were not made available for audit verification. As a result, it could not be established whether the process used was transparent and fair in line with the Constitution.

Recommendation

The County Government should ensure that recruitment of staff is carried out in accordance with the law.

3.0G-Pay Payment System

A review of bank reconciliation statements indicated that in the months of January 2014 to March 2014, Iten Hospital, Kenya Power and Lighting Company Limited and an individual were paid a total of Kshs.1,938,589 through Real Time Gross Settlement (RTGS) ref: 54, 388 and 345. Further, during the same dates except for Kenya Power and Lighting Company which was on a different date, the same payments were made through RTGS ref: 59, 448 and 356 resulting to double payments. Apart from failure to provide reasons for the double payments, no excess payment recoveries had been made as at the time of this audit.

Recommendation

The Accounting Officer should recover the money from beneficiaries totaling to Kshs.1,938,589 without further delay and ensure that proper controls are put in place to avoid double payments in future.

4.0 Outstanding Imprests

Examination of imprest records maintained by the County Executive revealed that imprests totalling to Kshs.12,668,631 which ought to have been surrendered by 30 June 2014 were still outstanding. Some of the imprests dated back to 1 November 2013. It was further observed that several officers were issued with multiple imprest before having accounted for balances previously issued contrary to Section 5.6.6 of Government Financial Regulations and Procedures which prohibit issuance of additional imprest to an officer before the first imprest is surrendered or recovered in full.

Recommendation

The management of imprests should be adhered to at all times and proper systems put in place to ensure that outstanding imprest is accounted for within time stipulated in the Government Financial Regulations and Procedures or be recovered from the salary of the concerned officers.

5.0 Cashbooks and Bank Reconciliation Statements

The County Executive operated nineteen (19) bank accounts comprising of four (4) at the Central bank and fifteen(15) at the Kenya Commercial bank with a total credit balance of Kshs.2,198,967 as at 30 June 2014. However, the respective cashbooks and monthly bank reconciliation statements for all the fifteen (15) bank accounts maintained at Kenya Commercial bank were not availed for audit review. The validity and completeness of transactions carried out through bank accounts could not be confirmed.

Recommendation

The Accounting officer should ensure that cash books and regular bank reconciliation statements are prepared as required by the Government Final Regulations and Procedures.

6.0 Hire of Machinery

6.1 Single Sourcing of Machines

A review of available records maintained at the County Executive revealed that a contractor was paid Kshs.2,856,850 on 3 June 2014 for hire of excavator and tipper lorry used in removing silt at Tabar Dam in Rimoi National Game Reserve which is managed by Kenya Wildlife Service(KWS). The works combined both the hire of machine (outsourced) and supply of fuel for the machines in contravention of Section 30(1) of the Public Procurement and Disposal Act, 2005. However, no documents were provided to indicate the actual amount spent on fuel for the hired machines.

Further, the contractor was not one of the pre-qualified firms by the County Tender Committee. The tender committee however, adopted tender minutes for Kenya Rural Roads Authority (KERRA) in awarding the contract, as indicated in minute No.35/07/02/014 of 6 February 2014. No request for quotations were issued to at least three firms hence the service was single sourced contrary to Section 74 of the Public Procurement and Disposal Act, 2005. In addition, no contract agreement was signed between the County Executive and the contractor.

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6.3 Tender Documents and Payments

It was also noted during the audit that relevant tender documents were not provided for audit review including requisition note for hire of machine by user department, authority letter from Tender Committee requesting KERRA for use of their list of pre-qualified suppliers Certificate of Inspection and Acceptance Committee confirming that works were actually carried out, work tickets, payment vouchers and fuel detailed orders indicating fuel drawn by the hired machinery.

Further, no specific budgetary allocation was provided for the works in 2013/2014 budget and was not included in the annual procurement plan.

Consequently, the propriety of the payment amounting to Kshs.2,856,850 could not be confirmed as at 30 June 2014.

Recommendations

- The management should ensure that all procurement of goods, works and services are carried out in line with the Public Procurement and Disposal Act, 2005 and related Regulations.
- Accountable documents should be properly kept for future reference.
- The management should review the above payment and ensure that the funds are properly accounted for and any irregular payment is recovered from the concerned officers.

7.0 Partly Supported Expenditure

Examination of payment vouchers for the period under review revealed that payment vouchers amounting to Kshs.2,877,298 were processed with sufficient and valid supporting documents. Section 5.5.13 of the Government Financial Regulations and Procedures require the accounting officer to put system in place for examination of vouchers to ensure payments are supported with appropriate certificate and/or duly certified invoices, receipt bills, LPOs as proof of acknowledgement of receipt of goods and services. In absence of the relevant documents, the propriety of payments could not be confirmed.

Recommendation

- The accounting officer should institute system in place for examination of payment vouchers for proper accountability of public funds.
- The management should also provide valid documents to support the above payments and any irregular payment is recovered from the concerned officers.



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Nairobi

19 May 2015