

**REPUBLIC OF KENYA**



**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL OPERATIONS OF**  
**ISIOLO 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 ISIOLO COUNTY ASSEMBLY FOR THE PERIOD 1 JULY 2013 TO 30 JUNE 2014**

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## **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 Isiolo 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:

- ✓ Budgetary controls and performance
- ✓ Procurement of goods and works and services
- ✓ Allowances including travelling and accommodation expenses for local and foreign trips
- ✓ Motor vehicle running expenses-fuel
- ✓ Operations of Ward Offices
- ✓ Imprests and advances
- ✓ Cash and bank balances
- ✓ Human Resource Records
- ✓ IT Environment
- ✓ Non-current assets
- ✓ Creditors
- ✓ Annual operational/Activity Plans

### **Key Audit Findings**

#### **1.0 Budgetary Control and Performance**

The approved budget for the County Assembly of Isiolo for the financial year 2013/2014 was Kshs. 303,442,754 comprising of recurrent expenditure only. The assembly spent Kshs. 211,988,043 or 70% of the budgeted amount during the year. The resultant under expenditure of Kshs. 91,454,711 (30%) was not explained.

#### **2.0 Procurement of Goods and Services**

The County Assembly had not established a procurement department as required by section 26(4) of the Public Procurement and Disposal Act, 2005. Further, no annual procurement plan was prepared during the year contrary to the requirements of the Public Procurement and Disposal Act ,2005 Section 26 (3) (a).

However, procurement of goods, services and works were done as need arises through the County Executive. In the circumstances the independence of the County Assembly was compromised.

### **3.0 Operationalization of Ward Offices**

During the year under review, the County Assembly budgeted Kshs.12, 000,000 to finance the operation of ten (10) Ward Offices within the County in pursuance of section 47 of the Isiolo County Assembly Service Board (Operationalization) Regulations, 2013. Consequently, an expenditure of Kshs.8, 800,000 was incurred in respect of Office rent, salaries and other operations which were paid to the Members of the County Assembly (MCA's) at a rate of Kshs.800, 000 each.

However, there was no documentary evidence to show that the salaries of the employees were set by the Salaries and Remuneration Commission (SRC) as required by article 230(4) of the Constitution and it was also not clear why the payments were made to the MCA's and not the employees themselves.

### **4.0 Unjustified Foreign Travel Expenditure**

The County Assembly budgeted Kshs.15,500,000 for foreign travel, subsistence and transportation costs. Subsequently, an expenditure of Kshs.14, 445,770 was incurred when the MCA's travelled to Dubai and Japan for an Infrastructure, Tourism and Trade conference in Dubai while the trip to Japan was for the purposes of learning Environmental Management, Water Conversation, Sanitation and Waste Management.

However, documentary evidence was not made available for audit verification to confirm that the trips actually took place and were beneficial to the County Assembly.

### **5.0 Cash and Bank Balances**

The County Assembly of Isiolo operated a bank account with Equity bank, Isiolo Branch under the name of Isiolo County Assembly A/C 0410261437860. The bank balance as per the bank statement as at 30 June 2014 was Kshs.7,716,237. However, the Assembly did not balance the cash book on a daily basis or prepare bank reconciliation statements monthly as required by the Government Financial Regulations and Procedures. Therefore, the actual cash book balance as at 30 June 2014 could not be ascertained.

### **6.0 Staff Establishment**

The County Assembly did not have an approved staff establishment. It therefore managed its human resource without an approved establishment. As a result, the adequacy, appropriateness, existence and the necessity to fill vacancies or the possibility of staff progression could not be ascertained.

## **7.0 Non Establishment of Finance Department**

The County Assembly did not establish a fully operational finance department as the department had only one official, the Interim Chief Finance Officer and it depended on the County Treasury in carrying out its financial operations. Consequently, there was no clear separation of financial operations between the County Executive and the County Assembly as they used the same financial records, systems and staff. No explanation was given for failure by the County Assembly to operate independently.

## **8.0 Non - Current Assets**

The County Assembly did not maintain a fixed assets register and therefore noncurrent assets worth Kshs 13,136,814 procured during the year were not recorded. As a result, it was not possible to confirm their existence. Further, the furniture, Computers and equipment procured were not coded for identification purposes.

## **9.0 Domestic Loans to Individuals and Households**

The County Assembly budgeted Kshs. 42,000,000 for Domestic Loans to Individuals and Households. However, the county assembly did not pass the necessary legislation to enable the County Executive Committee member for finance to establish a fund for the loans.

In the circumstances, no loans were disbursed under the budgeted item.

## **10.0 Creditors**

During the period under review, creditor's ledgers were not maintained by the County Assembly to ascertain its level of indebtedness of the Assembly to its various suppliers. The management should maintain creditor's ledger to assure the accuracy and correctness of its payables.

## **11.0 Information Technology Environment**

The Isiolo County Assembly had not installed Integrated Financial Management Information System (IFMIS) hence all financial transactions are processed manually. Further, no ledgers or trial balance were prepared and produced for audit review.

The County Assembly should ensure installation of the Integrated Financial Management Information System (IFMIS) for all its financial recording and production of financial reports.

## **12.0 Non Preparation of Annual/Activity Plans**

The Assembly did not prepare annual operational/Activity plans and in their absence, it was not possible to ascertain whether the Assembly was operating within set targets and the extent to which the targets were achieved.

The County Assembly management should ensure it operated on clear set targets in the Annual Activity Plan.

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**

**28 May 2015**

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

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## **Detailed Audit Findings**

### **1.0 Budgetary Control and Performance**

The approved budget for the County Assembly of Isiolo for the financial year 2013/2014 was Kshs.303,442,754 comprising of recurrent expenditure only. The Assembly spent Kshs.211,988,043 or 70% of the budgeted amount during the year. A breakdown of recurrent expenditure revealed that the Assembly spent Kshs.74,156,038 on personnel emoluments which translate to 35 % of the total recurrent expenditure while Kshs. 137,832,055 was spent on operations and maintenance accounting for 65 % of the expenditure.

A review of the operations and maintenance expenditure for the period, disclosed that Kshs.42,062,211 or 20% was spent on domestic travels, Kshs.15,024,217.00 or 7% on foreign travel, Kshs.14,812,000 or 7% on fuel & Lubricants and Kshs.11,772,014 or 6% on Purchase of Office Furniture, 8,880,000 or 4% on Ward Offices operations and Kshs.45,441,563 spent on other categories of operations and maintenance.

No explanation was given for failure to spend the approved budget in full during the year.

### **Recommendation**

The County Assembly needs to comply with each financial year budget as approved to ensure effective service delivery to the county residents.

### **2.0 Procurement of Goods and Services**

It was observed that the County Assembly had not established a procurement department as required by section 26(4) of the Public Procurement and Disposal Act, 2005. Further, no annual procurement plan was prepared during the year contrary to the requirements of the Public Procurement and Disposal Act ,2005 section 26 (3) (a).

However, procurement of goods, services and works were procured as need arises through the County Executive. In the circumstances the independence of the Assembly was compromised.

### **Recommendations**

- The assembly should establish a procurement department.
- The County Assembly should ensure a procurement plan is prepared every financial year in compliance with the Public Procurement and Disposal Act, 2005 section 26 (3) (a)

### **3.0 Operationalization of Ward Offices**



During the year under review, the County Assembly budgeted Kshs.12, 000,000 to finance the operation of ten (10) Ward Offices within the County for elected Members of County Assembly (MCA's). This was in pursuit of section 47 of the Isiolo County Assembly Service Board (Operationalization) Regulations, 2013. The regulations stipulated that the County Assembly will facilitate opening of ward offices for the elected MCA's and the rent paid should not exceed Kshs. 10,000 per ward. Further, it stated that personnel wages should not exceed Kshs. 50,000 per ward and operational expenses should not exceed 40,000 per ward.

Consequently, the following expenditure was incurred:-

<b>Date</b>	<b>Item</b>	<b>Cheque</b>	<b>Amount (Kshs)</b>
19/06/2014	Office Rent/ward staff and Operations	EFTs	7,200,000
11/06/2014	Office Rent/ward staff and Operations	78	1,440,000
11/06/2014	Office Rent/ward staff and Operations	042	<u>160,000</u>
<b>Total</b>			<b><u>8,000,000</u></b>

The amounts were paid to the MCA's as indicated below:-

<b>S/No</b>	<b>Names</b>	<b>Amount( Kshs)</b>
1.	Hon. Adan Ali Wako	800,000
2.	Hon. Moses Kithinji	800,000
3.	Hon. David Lemantille	800,000
4.	Hon. Salesio Kiambi	800,000
5.	Hon. Paul Mero	800,000
6.	Hon. Peter Losu	800,000
7.	Hon. Hassan Diba Kumpa	800,000
8.	Hon. Ali Galgalo Boru	800,000
9.	Hon. Abdi Sora Balla	800,000
10.	Hon Nura Diba Billa	<u>800,000</u>
	<b>Total</b>	<b><u>8,000,000</u></b>

However, there was no approved structure, grading or job descriptions of the recruited ward staff. Evidently, by virtue of the positions being filled by the MCAs, it was not possible to establish whether the positions were competitively sourced and the required qualifications met. Further, the County Service Board does not have the power to delegate its duty of recruiting and appointing officers and it was therefore irregular for the MCA's to recruit Ward Offices staff. In addition, there was no documentary evidence to show that the salaries of these employees were set by the Salaries and Remuneration Commission (SRC) as required by article 230(4) of the Constitution. Meanwhile, the rent payments were not supported by rental lease agreements.

In the circumstances, the expenditure of Kshs. 8,880,000 being operational expenses for ward offices may not have been used in an economical, effective and efficient way.

## **Recommendations**

- The County Assembly should ensure that the payment of Ward Offices expenses are made directly to the landlords for the rent paid and the salaries to the employees and not the MCA's as it is the case now.
- Further, the salaries paid to the employees should be as per the approved salaries scales by the SRC.
- The unsupported rent payments should be recovered.

#### 4.0 Unjustified Foreign Travel

The County Assembly budgeted Kshs. 15,500,000 for Foreign Travel, Subsistence and Transportation Costs. Subsequently, the County Assembly organized two foreign trips for the MCA's to Dubai in May 2014 for 7days and Japan in May 2014 for 10 days. The trip to Dubai was for an Infrastructure, Tourism and Trade conference while the trip to Japan was for the purposes of learning Environmental Management, Water Conversation, Sanitation and Waste Management and City Management and as a result, Kshs.14445,771 was incurred:

4.1 Dubai Trip	Particulars	Amount (Kshs)
	Visa Charges	345,000
	Visa Charges	<u>138,000</u>
	<b>Subtotal</b>	<b><u>483,000</u></b>
	<b>Travelling Allowances</b>	
1.	Hon Mohammed Tubi	313,699
2.	Hon Benjamin Lopetet	272,465
3.	Hon. Diba Tubi	272,465
4.	Hon. Hassan Shano	272,465
5.	Hon Dekha Bonja	272,465
6.	Hon Fatuma Said	272,465
7.	Molu Halake	313,699
8.	Abdullahi Dadacha	272,465
9.	Hon. David Lemantille	273,015
10.	Hon, Adan Ali Wako	273,015
11.	Hon. Moses Kithinji	273,015
12.	Hon. Paul Mero	273,015
13.	Hon. Hassan Kumpa	273,015
14.	Hon. Abdi Sora	273,015
15.	Hon. Nura Diba	273,015
16.	Hon. Ali Galgalo	273,015
17.	Hon. Peter Losu	273,015
18.	Hon. Salesio Kiambi	273,015
19.	Sadia Hajj Abdi	273,015
20.	Hon Hadija Mamo	273,015
21.	Hon. Elizabeth Maitima	273,015
22.	Hon. Gladys Atiku	273,015
23.	Hon. Dahabo Bonaya	273,015
	<b>Subtotal</b>	<b><u>6,357,413</u></b>
	Yellow Fever Vaccination	<b>35,000</b>
	Airtickets	1,265,000

Tour Charges	1,076,900
Conference Charges	<u>1,320,000</u>
<b>Subtotal</b>	<b><u>3,696,900</u></b>
<b>Grand Total for Dubai Trip</b>	<b><u>10,537,313</u></b>

Out of the Kshs.10,537,313 spent, Kshs.3, 661,900 was spent to the tour firm in respect of air tickets, tour and conference charges. However, documents were not provided for audit to show how the firm was sourced and it was therefore not possible to ascertain whether due procurement procedures were adhered to in the procurement of the services.

<b>4.2 Japan Trip</b>	<b>Particulars</b>	<b>Amount (Kshs)</b>
<b>Subsistence Allowance (Nairobi)</b>		
1.	Hon. Mohamed Tubi	48,000
2.	Hon. Adan Ali Wako	32,000
3.	Hon. Moses Kithinji	32,000
4.	Hon. Paul Mero	32,000
5.	Hon. Hassan Diba Kumpa	32,000
6.	Mr. Molu Halake	<u>40,000</u>
	<b>Subtotal</b>	<b><u>216,000</u></b>
<b>Subsistence Allowance (Japan)</b>		
1.	Hon. Mohamed Tubi	491,510
2.	Mr. Molu Halake	491,510
3.	Hon. Adan Ali Wako	420,394
4.	Hon. Moses Kithinji	420,394
5.	Hon. Paul Mero	420,394
6.	Hon. Hassan Diba Kumpa	<u>420,394</u>
	<b>Subtotal</b>	<b><u>2,664,596</u></b>
	Airtickets	<b><u>1,027,861</u></b>
	<b>Grand Total for Japan Trip</b>	<b><u>3,908,458</u></b>

Out of the Kshs.3, 908,458 spent on the trip, Kshs.1,027,862 was paid to tour firm for air tickets. However, documents were not provided for audit verification to show whether the entity was competitively sourced for the services.

In total, an expenditure of Kshs.14,445,771 was incurred on the trip out of the budgeted amount of Kshs.15, 500,000. However, documentary evidence was not made available for audit to confirm the trips were beneficial to the County Assembly. No report has been presented to the County Assembly as regards the trips. In the circumstances, the expenditure was not a proper charge to public funds.

### **Recommendation**

- The expenditure of Kshs.14,445,771 should be recovered from the MCA's who undertook the trips as no evidence has been provided to show how the trips were beneficial to the County Assembly.

## **5.0 Cash and Bank Balances**

The County Assembly operated a bank account with Equity bank, Isiolo Branch under the name of Isiolo County Assembly A/C 0410261437860. The bank balance per the bank statement as at 30 June 2014 was Kshs.7,716,237. However, the Assembly did not balance the cash book on daily basis or prepare bank reconciliation statements monthly as required by the Government Financial Regulations and Procedures and therefore the actual cash held as at 30 June 2014 could not be ascertained.

### **Recommendation**

- The County Assembly should ensure the cash book is balanced on daily basis and monthly bank reconciliation statements are prepared and checked by a senior officer.

## **6.0 Staff Establishment**

The County Assembly did not prepare or approve its personnel establishment and hence managed its human resource without an approved establishment. As a result, the adequacy, appropriateness, existence and the necessity to fill vacancies or the possibility of staff progression was not ascertained.

No explanation was given for failure to have a staff establishment in place.

### **Recommendation**

The County Assembly should prepare its approved establishment as a guide on the issues that affect the staff recruitment promotion and progression.

## **7.0 Non Establishment of Finance and Procurement Departments**

During the period under review, the County Assembly did not establish fully operational finance and procurement department as the department had only one official, the Interim Chief Finance Officer and it depended on the County Treasury in carrying out financial operations like procurement, imprest management, payment of allowances among other financial operations in order to comply with objectives set out in section 147 (1) of the Public Finance Management Act, 2012. Consequently, there was no clear separation of financial operations between the County Executive and the County Assembly as they used the same financial records and systems.

Further, the County Assembly did not also establish an internal audit function as required by section 155. (1)(a) of the Public Finance Management Act, 2012.

No explanation was given for failure by the County Assembly to operate independently.

### **Recommendation**

The County Assembly should establish finance, internal audit and procurement departments and ensure that they are fully operational in order to comply with the requirements of sections 147(1) and ISS(1)(a) of the Public Finance Management Act, 2012.

## 8.0 Non-Current Assets

The County Assembly did not maintain a fixed assets register that reflected the following information; Year of acquisition, depreciation rate, accumulated depreciation, annual contribution of renewals fund, and mode of financing. Further, it was observed that:-

- The County Assembly does not have in place policies and procedures relating to Asset Management.
- The assets are not coded.
- Non-Current assets are not physically inspected on a regular basis.
- There was sharing of assets between the County Assembly and County Executive. In the circumstances, it was not possible to distinguish which assets belonged to the County Executive and which ones belonged to the County Assembly as both the Assembly and Executive were housed at the offices of the defunct Council.

During the same period, the County Assembly purchased various fixed assets as indicated below. However, they were not entered in the fixed assets register

<b>Items</b>	<b>Amount (Kshs)</b>
Purchase of Office an General Equipment	11,772,014
Purchase of Specialized Plant, Equipment and Machinery	<u>1,364,800</u>
	<b><u>13,136,814</u></b>

It was not explained why the assets were not recorded in the fixed assets register.

## Recommendations

- The County Assembly should put in place adequate systems and processes to plan for, procure, account for, maintain, store and dispose of assets, including an asset register that is updated, accurate and available in compliance with Section 149 (2) (o) of the Public Finance Management Act, 2012.
- Assets sharing should be finalised to allow effective utilization and management of the fixed assets.

## 9.0 Domestic Loans to Individuals and Households

The County Assembly had a budget of Kshs. 42,000,000 for Domestic Loans to Individuals and Households. However, the county assembly did not pass the necessary legislation to enable the County Executive Committee member for finance to establish a fund for the loans.

In the circumstances, no loans were disbursed under the budgeted item, this denying the local residents the desired and planned service delivery.

## **Recommendations**

The County assembly should pass the necessary legislation that will create regulations that will guide the operations of the loans fund.

### **10.0 Creditors**

During the period under review, creditor's ledgers were not maintained and in their absence, it was not possible to ascertain the indebtedness of the Assembly to its various suppliers.

#### **Recommendation**

- The County Assembly should maintain creditors' ledgers and registers to record creditor's transactions and carry out regular reconciliations between its records and Creditors records.

### **11.0 IT Environment**

The Isiolo County Assembly had not installed Integrated Financial Management Information System (IFMIS) implying that all the financial transactions are processed manually. Further, no ledgers or trial balance were prepared and produced for audit review.

#### **Recommendation**

- IFMIS should be installed at the Assembly to process all the transactions and also ensure that IFMIS ledger reports are in conformity with the prescribed Financial Regulations and Procedures

### **12.0 Non Preparation of Annual/Activity Plans**

The Assembly did not prepare annual operation / activity plans and in their absence, it was not possible to ascertain whether the Assembly was operating within set targets and the extent to which the said targets were achieved.

#### **Recommendation**

- Management should prepare annual Operational/Activity plans to steer its operations and enable performance to ensure effective service delivery.

## **Conclusion**

The County Assembly of Isiolo had teething challenges in its first year of operation including staffing, setting up of structures and adherence to public resources management legislations

regulations and procedures. However, closer attention to the constitution, the Public Finance Management Act, 2012, the Public Procurement and Disposal Act, 2005 and Regulations, 2006 (Revised 2013) and human resources management policies will ensure effective management of the public resources.

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

**Edward R. O. Ouko, C. B. S.**  
**AUDITOR-GENERAL**

**Nairobi**

**28 May 2015**