

REPUBLIC OF KENYA



REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL OPERATIONS OF
KWALE COUNTY EXECUTIVE**

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

Table of Contents

EXECUTIVE SUMMARY	1
Introduction	1
Audit Objectives	1
Terms of Reference.....	1
Key Audit Findings	1
1.0 Expenditure	1
1.1 Procurement of Goods, Works and Services.....	1
1.1.1 Procurement of Garage Equipment.....	1
1.1.2 Procurement of Survey Equipment.....	2
1.1.3 Procurement of Farm Inputs.....	2
1.1.4 Procurement of Repair Works from non-qualified supplier	2
1.1.5 Procurement of Goods, Works and Services by Imprest.....	2
1.1.6 Purchase of Computers.....	3
1.1.7 Purchase of Goods, Works and Services from non-prequalified Suppliers	3
1.1.8 Payments to Council of Governors.....	3
2.2 Hire of Motor Vehicles	3
2.3 Expenditure on Seminars, Training and Workshops.....	3
3.0 Outstanding Imprest	4
4.0 Emergency Fund	4
5.0 Cash and Bank Balances	4
5.1 Bursary Payments	4
6.0 Human Resource.....	4
6.1 Casual Wages	4
Detailed Audit Findings	6
1.0 Procurement of Goods, Works and Services.....	6
1.1.1 Procurement of Garage Equipment.....	6
1.1.2 Procurement of Survey Equipment.....	6
1.1.3 Procurement of Farm Inputs.....	7
1.1.4 Procurement of Repair Works from non-qualified supplier	7
1.1.5 Procurement of Goods, Works and Services by Imprest.....	8
1.1.6 Purchase of Computers.....	8
1.1.7 Purchase of Goods, Works and Services from non-prequalified suppliers	9
1.2 Payments to Council of Governors.....	9
1.3 Hire of Motor Vehicles	10
1.4 Expenditure on Seminars, Training and Workshops.....	10
2.0 Outstanding Imprest.....	10

3.0 Emergency Fund..... 11

REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL OPERATIONS OF KWALE COUNTY EXECUTIVE 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 of Kenya and the Public Audit Act, 2003.

Audit Objectives

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

Terms of Reference

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
- Annual operational /Activity plans
- Procurement of goods, works and services
- Allowances including travelling and accommodation expenses for local and foreign trips.
- Motor vehicle running expenses-Fuel
- Consultancy services
- Imprests and advances
- Cash and bank balances
- Human Resource Records
- IT Environment
- Non-Current assets
- Debtors
- Creditors

The audit team was faced with several constraints during the audit, including delays in retrieval of information from IFMIS. These constraints resulted in delay in concluding the audit within the planned timelines.

Key Audit Findings

1.0 Expenditure

1.1 Procurement of Goods, Works and Services

1.1.1 Procurement of Garage Equipment

A review of the procurement records availed for audit indicated that the County Executive during the year under review, paid for various garage equipment amounting to Kshs.1,365,000. However, a review of the stores records made available did not give evidence of these items ever having been received in to the stores through the

counter receipt voucher (S13), taken on charge through bin cards (S3) as required and having been issued out officially through counter requisition and issue voucher (S11). Consequently, the items for which the expenditure of Kshs.1,365,000 relates to cannot be accounted for.

1.1.2 Procurement of Survey Equipment

Information availed for audit review indicated that the County Executive procured three G.P.S machines (Trimble Geoxh XT 6000) at a total cost of Kshs.3,795,000 for use by the survey department. However, no documents were availed for audit review to support how the supplier was identified, selected and awarded the tender. No requisition from the user department was availed for audit review to confirm that indeed the user department requested for the equipment. In addition, information made available indicates that the equipment was supplied without a critical software required to operationalize the same.

1.1.3 Procurement of Farm Inputs

Information availed for audit review indicated that the County Executive spent Kshs.38,478,000 on procurement of farm inputs. The procurement was in respect of 6000 bags of seeds, 6000 bags of Calcium Ammonium Nitrate (CAN) and 6000 bags of Diammonium Phosphate (DAP) fertilizers to be distributed to farmers within the County. However, no supporting documents were availed for audit review to show how the suppliers were identified, selected and awarded the tenders. Again, the farm inputs were to be supplied for free to the farmers but no clear documented policy for identifying the farmers was availed for audit review. Further, the distribution list availed for audit review was not dated and failed to disclose all the details of the beneficiaries including ID numbers, land registration numbers and their signatures. The competitiveness, equity and fairness of the prices charged and benefits accruing therefore could not be confirmed.

1.1.4 Procurement of Repair Works from non-qualified supplier

Information availed for audit review indicated that the County Executive undertook various repairs of County vehicles and machinery at a local firm at a cost of Kshs.1,739,720. However, a review of procurement records revealed that the firm was not among those firms prequalified to undertake the repair works for the County Government. In addition, the inspection reports by the government agencies charged with the responsibility for works on public assets were not made available for audit verification. The procurement of these repair works is therefore against the Public Procurement and Disposals Act, 2005 and the relevant regulations.

1.1.5 Procurement of Goods, Works and Services by Imprest

A review of the imprest records maintained by the County Executive for the period under review, revealed that various officers were issued with imprest to undertake various procurement activities amounting to Kshs.1,543,900. No satisfactory explanation was provided for use of imprest in making these procurements. Use of imprest for procurement is contrary to the Public Procurement and Disposal Act, 2005 and Public Procurement and Disposal Regulations, 2006.

1.1.6 Purchase of Computers

Information availed for audit review indicated that the County Executive paid for supply of 33 laptops and 32 desktop computers for an amount of Kshs.6,760,000.

However, a review of the relevant supporting documents attached to the payment voucher indicated that critical supporting records including official counter receipt voucher (S13) and counter requisition and issue voucher (S11) as evidence for receipt of the items in store were not attached. In addition, availed information indicated that the manufacturer's warranty for all the laptops and computers bought expired on 18 March, 2014 which was one month after the computers were delivered. The management did not provide for audit verification information on how the suppliers were identified, selected and awarded the tender. Further, no distribution list of the computers including acknowledgement of receipt of the same by users was availed for audit review.

1.1.7 Purchase of Goods, Works and Services from non-prequalified Suppliers

Audit review indicated that the County Executive sourced for goods and services worth Kshs.712,660 from suppliers who were not prequalified for the year 2013/2014 contrary to the provisions of Section 25(3) of the Public Procurement and Disposal Regulations, 2006, which requires that the procuring entity invite tenders from only the persons who have been prequalified.

1.1.8 Payments to Council of Governors

Information availed for audit review indicated that during the period under review, the County Government paid a total amount of Kshs.6,100,880 to the Council of Governors vide PV.no. 18/03/2014 of Kshs.3,000,000 and PV no.1680 dated 25/5/14 of Kshs.3,100,880. This was part of the total support to the Council of Governors for the year under review of Kshs.7,500,880. This expenditure was incurred in contravention of Section 37 of the Intergovernmental Relations Act 2 of 2012 on operational expenses in respect of the structures and institutions established in this Act which require that such operational expenses be provided for in the annual estimates of the revenue and expenditure of the National Government. It is not possible to confirm the regulation under which this payment was made.

2.2 Hire of Motor Vehicles

Documents made available for audit review indicated that the County Government incurred a total of Kshs.1,995,000 on hire of buses for transportation of the public to various locations during various activities officiated by the Governor during the period under review. However, the basis of these payments were not provided for audit review. Further, no documents were availed for audit review to show how the transporters were identified, selected and awarded the contract.

2.3 Expenditure on Seminars, Training and Workshops

Audit review of a sample of expenditure incurred on seminars, training and workshops amounting to Kshs.4,248,130 revealed that these expenditures were not adequately supported with invitation letters and duly signed attendance register of participants.

The documents relating to planning of these seminars from initiation to completion as a justification for the expenditure were not made available for audit verification. In addition, although suppliers were prequalified, request for quotations were not availed for audit review to show that at least three service providers were considered to render the service. Further, an amount of Kshs.725,550 in form of per diem was paid to various staff while on a trip to Ghana but no supporting documents were availed for audit review. Also, an amount of Kshs.450,000 was paid for meals and accommodation for unidentified persons during the cultural festivals.

3.0 Outstanding Imprest

A review of imprest records availed for audit review indicated that the County Government had total outstanding imprest amounting to Kshs.19,591,744 as at 30 June 2014. However, scrutiny of the imprest records revealed that some officers were issued with additional imprest before accounting for imprest issued to them earlier, contrary to the provisions of Section 152 of Public Finance Management Act, 2012, on prudent management of imprest and various regulations governing issuance and surrender of imprest. Further, information availed for audit review revealed that an officer who ceased to work for the County Government had outstanding imprests amounting to Kshs.586,300 as at 30 June 2014.

4.0 Emergency Fund

The audit of the County Government financial records again revealed that the County Government had set aside Kshs.23,000,000 as Emergency Fund during the period under review in line with Section 110 of the Public Finance Management Act 2012. However, the Fund is yet to be established by the County Executive Committee and approved by the County Assembly as required by the law.

5.0 Cash and Bank Balances

5.1 Bursary Payments

Records availed for audit review indicate that the County Government disbursed a total of Kshs.100,249,373 as bursary to various beneficiaries during the year under review. However, no Education and Bursary Act for the county forming the basis of the bursary scheme and spelling out the beneficiaries' evaluation criteria was availed for audit review. In addition, the payment details provided in support of the bursary disbursements amounted to Kshs.95,965,860 resulting in unexplained and unreconciled difference of Kshs.4,283,513.

6.0 Human Resource

6.1 Casual Wages

Records availed for audit review indicated that the County Government budgeted Kshs.5,946,240 in respect of casuals wages. However, a total of Kshs.12,458,894.30 was incurred by 31 March, 2014 out of which Kshs.9,029,181.30 was spent on casuals through the muster roll, while the balance of Kshs.3,429,713 was spent

through use of imprest contrary to the provisions of Section 74 of the County Government Act no.17 of 2012.

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

19 May 2015

Nairobi

DETAILED AUDIT REPORT ON THE FINANCIAL OPERATIONS OF COUNTY EXECUTIVE OF KWALE FOR THE PERIOD 1 JULY 2013 TO 30 JUNE 2014

Detailed Audit Findings

1.0 Procurement of Goods, Works and Services

1.1.1 Procurement of Garage Equipment

A review of the procurement records availed for audit indicated that the County Government during the year under review, paid for various garage equipment amounting to Kshs.1,365,000 as indicated below: -

Date	P. V. No.	Description	Amount (Kshs.)
4.6.2014	1872	Trolling Jack	115,000.00
4.6.2014	1872	Computerized diagnosing machine	680,000.00
4.6.2014	1872	10 ton standing jack	144,000.00
4.6.2014	1872	Generator and compressor	210,000.00
4.6.2014	1872	High Pressure grease	162,000.00
3.4.2014	4212	Office chair without arm rest	54,000.00
			<u>1,365,000.00</u>

However, a review of the stores records made available did not give evidence of these items ever having been received in to the stores through the counter receipt voucher (S13), taken on charge through bin cards (S3) as required and having been issued out officially through counter requisition and issue voucher (S11). Consequently, the items for which the expenditure of Kshs.1,365,000 relates to could not be accounted for. This expenditure therefore appears nugatory.

Recommendation

The management should adhere to the Public Finance Management Act 2012 and Government Financial Regulations and Procedures for prudent expenditure of public funds. Further, all the necessary documentary evidence in support of the expenditure need to be availed for audit review, failure to which recoveries be effected from the officers responsible for ordering and receiving the unaccounted items.

1.1.2 Procurement of Survey Equipment

Information availed for audit review indicated that the County Government procured three G.P.S machines (Trimble Geoxh XT 6000) at a total cost of Kshs.3,795,000 for use by the survey department. However, no documents were availed for audit review to support how the supplier was identified, selected and awarded the tender. No requisition from the user department was availed for audit review to confirm that indeed the user department requested for the equipment. In addition, information made

available indicates that the equipment was supplied without a critical software required to operationalize the same.

Recommendations

The management should always ensure that the complete procurement cycle as directed by the Public Procurement and Disposals Act, 2005 and Public Procurement and Disposal Regulations, 2006 is adhered to. Again, the management should explain the prudence and justification of this expenditure especially with the absence of the critical software required to operationalize the equipment. The officers responsible for this unjustifiable expenditure should be surcharged if for any reason the equipment is not used within a reasonable time.

1.1.3 Procurement of Farm Inputs

Information availed for audit review indicated that the County Government spent Kshs.38,478,000 on procurement of farm inputs as indicated below: -

PV. No.	Date	Amount (Ksh.)
104	31/12/2013	15,750,000.00
1021	18/03/2014	4,992,000.00
1256	03/04/2014	5,376,000.00
4126	05/04/2014	12,360,000.00
TOTAL		38,478,000.00

The procurement was in respect of 6000 bags of seeds, 6000 bags of Calcium Ammonium Nitrate (CAN) and 6000 bags of Diammonium Phosphate (DAP) fertilizers to be distributed to farmers within the County. However, no supporting documents were availed for audit review to show how the suppliers were identified, selected and awarded the tenders. Further, the farm inputs were to be supplied for free to the farmers but no clear documented policy for identifying the farmers was availed for audit review. In addition, the distribution list availed for audit review was not dated and failed to disclose all the details of the beneficiaries including ID numbers, land registration numbers and their signatures. The competitiveness, equity and fairness of the prices charged and benefits accruing therefore could not be confirmed.

Recommendations

The Management should ensure that all procurements are always done in line with Public Procurement and Disposal Act, 2005. The management should also ensure that such an important programme is properly planned and executed to ensure equity and fairness, and documentation in respect of the execution is properly maintained for audit and monitoring. Management should also avail for audit review, the documentary evidence in support of the procurement and distribution processes for the farm inputs, failure to which the unsupported amount is surcharged to the responsible officer.

1.1.4 Procurement of Repair Works from non-qualified supplier

Information availed for audit review indicated that the County Government undertook various repairs of County vehicles and machinery at a local farm at a cost of Kshs.1,739,720. However, a review of procurement records revealed that the firm was

not among those firms prequalified to undertake the repair works for the County Government. In addition, the inspection reports by the government agencies charged with the responsibility for works on public assets were not made available for audit verification. The procurement of these repair works is therefore against the Public Procurement and Disposals Act, 2005 and the relevant regulations. In the circumstances, it has not been possible to confirm in deed if the County Executive got value for money in the procurement process.

Recommendations

The Management should ensure that procurement laws are adhered to when procuring for repair works to ensure value for money. The Management should avail for audit review documentary evidence supporting inspection by Government agencies charged with responsibility for works on public assets.

1.1.5 Procurement of Goods, Works and Services by Imprest

A review of the imprest records maintained by the County Government, for the period under review, revealed that various officers were issued with imprest to undertake various procurement activities amounting to Kshs.1,543,900. No satisfactory explanation was provided for use of imprest in making these procurements contrary to the Public Procurement and Disposal Act, 2005 and Public Procurement and Disposal Regulations, 2006.

Recommendations

The management should ensure compliance with procurement law without exception. Further, the management should also adhere to prudent use of funds in line with the Government Financial Regulations and limit imprest expenditure to low value items not exceeding Kshs.30,000.

1.1.6 Purchase of Computers

Information availed for audit review indicated that the County Government paid for supply of 33 laptops and 32 desktop computers for an amount of Kshs.6,760,000 as indicated below: -

PV NO.	Date	Goods supplied	Amount (Ksh.)
300	03/02/2014	33No. Laptop Computer	1,975,000.00
300	03/02/2014	32No. Computers	4,785,000.00
Total			6,760,000.00

However, a review of the relevant supporting documents attached to the payment voucher indicated that critical supporting records such as official counter receipt voucher (S13) and counter requisition and issue voucher (S11) as evidence for receipt of the items in store were not included. In addition, availed information indicated that the manufacturer's warranty for all the laptops and computers bought expired on 18 March, 2014 which was one month after the computers were delivered. The management did not provide for audit verification information on how the suppliers

were identified, selected and awarded the tender. Further, no distribution list of the computers including acknowledgement of receipt of the same by users was availed for audit review. Consequently, the authenticity of this expenditure could not be ascertained as at the time of this audit.

Recommendations

The management should ensure that all procurements are processed in line with Public Procurement and Disposal Act, 2005. The management should also account for all computers purchased and confirm that the computers are still operational. Any equipment not accounted for should be surcharged on the respective officer. Further, the management should ensure that a standard one year warrant for the computers is secured and that all documentary evidence in support of the procurement and the distribution processes of the computers are availed for audit verification failure to which the respective officer is surcharged for the accepted one month warranty period and failure to provide records on the location of the assets.

1.1.7 Purchase of Goods, Works and Services from non-prequalified suppliers

Audit review indicated that the County Executive sourced for goods and services worth Kshs.712,660 from suppliers who were not prequalified for the year 2013/2014 contrary to the provisions of Section 25(3) of the Public Procurement and Disposal Regulations, 2006, which requires that the procuring entity invite tenders from only the persons who have been prequalified.

Recommendations

The management should always comply with the Public Procurement and Disposal Act, 2005 on pre-qualified suppliers. Further, the management should ensure that documentary evidence in support of the procurement process is availed for audit review failure which the respective officer is surcharged.

1.2 Payments to Council of Governors

Information availed for audit review indicated that during the period under review, the County Government paid a total amount of Kshs.6,100,880 to the Council of Governors vide PV.no. 18/03/2014 of Kshs.3,000,000 and PV no.1680 dated 25/5/14 of Kshs.3,100,880. This was part of the total support to the Council of Governors for the year under review of Kshs.7,500,880. This expenditure was incurred in contravention of Section 37 of the Intergovernmental Relations Act of 2012 on operational expenses in respect of the structures and institutions established in this Act which require that such operational expenses be provided for in the annual estimates of the revenue and expenditure of the National Government. It is not possible to confirm the regulation under which this payment was made.

Recommendations

The management should at all times adhere to the various laws and regulations governing the operations of the Counties and comply with laws in the reallocation of expenses. The management should also provide satisfactory explanation on why this expenditure was incurred, failure to which the amount should be surcharged to the officers who authorized the payment.

1.3 Hire of Motor Vehicles

Documents made available for audit review indicated that the County Government incurred a total of Kshs.1,995,000 on hire of buses for transportation of the public to various locations during various activities officiated by the Governor during the period under review. However, the basis of these payments were not provided for audit review. Further, no documents were availed for audit review to show how the transporters were identified, selected and awarded the contract. The list/manifest of people transported during the various activities were not made available for audit review. Further, no comprehensive list of the expenditure of Kshs.1,995,000 was availed for audit verification.

Recommendations

The management should ensure that all the procurements are done in line with Public Procurement and Disposals Act, 2005 and adequately documented. In addition, Management should account for all these funds by providing for audit review the required critical information. Any unaccounted funds should be surcharged to the officer(s) who authorised the payments.

1.4 Expenditure on Seminars, Training and Workshops

An audit review of a sample of expenditure incurred on seminars, training and workshops amounting to Kshs.4,248,130 revealed that these expenditures were not adequately supported with invitation letters and duly signed attendance register of participants. The documents relating to planning of these seminars from initiation to completion as a justification for the expenditure were not made available for audit verification. In addition, although suppliers were prequalified, request for quotations were not availed for audit review to show that at least three service providers were considered to render the service. Further, an amount of Kshs.725,550 in form of per diem was paid to various staff while on a trip to Ghana but no supporting documents were availed for audit review. Also, an amount of Kshs.450,000 was paid for meals and accommodation for unidentified persons during the cultural festivals. In the circumstances, it has not been possible to confirm the propriety on the expenditure totalling Kshs.5,423,680 on seminars, training and workshops during the year under review.

Recommendations

The management should ensure that all procurements are done in line with Public Procurement and Disposals Act, 2005. The Management should also account for all these funds by providing for audit review the required critical information, failure to which any unaccounted funds be surcharged to the officer(s) who authorised these payments.

2.0 Outstanding Imprest

A review of the imprest records availed for audit review indicated that the County Government had total outstanding imprest amounting to Kshs.19,591,744 as at 30 June 2014. However, scrutiny of the imprest records revealed that an officer with total outstanding imprest amounting to Kshs.13,350 was issued with additional imprest

before accounting for imprest issued to her earlier, contrary to the provisions of Section 152 of Public Finance Management Act, 2012, on prudent management of imprest and various regulations governing issuance and surrender of imprest. Further, information availed for audit review revealed that an officer who ceased working for the County Government had outstanding imprests amounting to Kshs.586,300 as at 30 June 2014. No satisfactory explanation was provided to why he was cleared before surrender or recovery of the outstanding amount.

Recommendations

The Management should enforce surrender and accounting for all these imprests and provide required critical information on such surrender in line with Government Financial Regulations. Any unaccounted for imprest should be recovered from the defaulting officers or those who have failed to enforce the rules governing management of imprests.

3.0 Emergency Fund

The audit of the County Government financial records again revealed that the County Government had set aside Kshs.23,000,000 as Emergency Fund during the period under review in line with Section 110 of the Public Finance Management Act 2012. However, the Fund is yet to be established by the County Executive Committee and approved by the County Assembly as required by the law.

Recommendations

The County Executive Committee should set up the emergency fund and have it approved by the County Assembly in order to have in place a clear operation framework governing its use.

4.0 Cash and Bank Balances

4.1 Bursary Payments

Records availed for audit review indicate that the County Government disbursed a total of Kshs.100,249,373 as bursary to various beneficiaries during the year under review. However, no Education and Bursary Act for the county forming the basis of the bursary scheme and spelling out the beneficiaries' evaluation criteria was availed for audit review. In addition, the payment details provided in support of the bursary disbursements amounted to Kshs.95,965,860 resulting in unexplained and unreconciled difference of Kshs.4,283,513. Consequently, the authenticity of these payments could not be confirmed.

Recommendations

There is need for the management to come up with the criteria for selecting the needy students and the same is availed for audit review. Also, the management should avail for audit verification the list of all beneficiaries amounting to Kshs.100,249,373, failure to which respective officer is surcharged for the difference.

5.0 Human Resource

5.1 Casual Wages

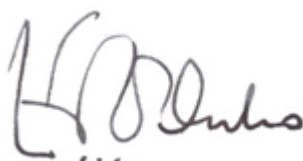
Records availed for audit review indicated that the County Government budgeted Kshs.5,946,240 in respect of casuals wages. However, a total of Kshs.12,458,894.30 was incurred by 31 March, 2014 out of which Kshs.9,029,181.30 was spent on casuals through the muster roll, while the balance of Kshs.3,429,713 was spent through use of imprest contrary to the provisions of Section 74 of the County Government Act no.17 of 2012. No documents were availed for audit review in support of authority for reallocation of the expenditure to cover increased casual wages.

Recommendations

Budget reallocation should always be authorised through the procedures prescribed by the Public Finance Management Act, 2012. The Management should ensure staff appointments and remuneration is always in line with budgets.

Conclusion

The Kwale County Executive should address the anomalies noted in order to ensure effective delivery of services to the people of Kwale. Laid down government procedures and processes should be adhered to ensure public resources are only used for purposes for which they were intended.



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

19 May 2015

Nairobi