

REPUBLIC OF KENYA



REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL OPERATIONS OF
MANDERA COUNTY EXECUTIVE**

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

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Introduction

The Office of the Auditor-General has the mandate to audit both the National and County Governments and all public entities in accordance with Article 229(6) of the constitution.

An audit inspection for Mandera County Executive financial operations was conducted in the month of February, 2015. The audit involved cash survey, audit of cash books, audit of personnel expenses and records, examination of payment vouchers, registers, information technology environment and other accountable documents relating to the financial year 2013/2014.

Audit Objective

The objective of the audit was to establish whether the County Government Act, 2012 the Public Procurement and Disposal Act, 2005, Public Finance Management Act, 2012 and Government Financial Regulations and procedures were properly followed and also to assess the effectiveness of the internal controls in place in the management of public resources for the benefit of the county residents.

Audit Findings and Recommendations

1.0 Cash Management

1.1 Maintenance of cashbook

An audit of the cash book maintained at Mandera County Treasury revealed that the cash book was not properly maintained. It was not balanced and it was not checked by a senior person regularly as required. The County Executive maintained a computer generated cash register as a cash book.

Recommendation

The Cash book should be balanced daily, checked and signed by senior officers on daily basis and any deficit or surplus that arise should be investigated without delay and resolved.

1.2 Bank Reconciliation Statement

The County Government had not prepared bank reconciliation statements for the period under review. No proper explanation was given as to why the County did not prepare the reconciliation statements as required by the Government financial regulations and procedures.

Recommendation

- The County Executive should ensure monthly bank reconciliation statements are prepared and duly reviewed to enhance proper cash management.

1.3 Outstanding Temporary Imprest

Examination of the imprest records held at the Mandera County Government Treasury revealed that imprest totaling Kshs.26,214,000 **as per Schedule 1** was outstanding as at 30 June 2014. The imprests were issued to officers for the operation of various departments and also for official duties. However, it was noted that the imprest remained outstanding 7 months after the closure of the financial year 2013/2014. This is an abuse of imprest and cash advances which puts public resources at risk. The County management did not provide any justification for the irregularities noted.

Recommendations

- The County Executive should adhere to the regulations governing imprest and ensure that officers account for the imprest within 48 hours upon return to their duty stations.
- Recover the outstanding imprest in full from the officers concerned.

1.4 Vote Book

A review of the Treasury documents revealed that vote book for the F/Y 2013/2014 was not maintained contrary to Section 5.5.15(c) of the Government Financial Regulations and Procedures. The funds were spent without vote book control and therefore it was difficult to confirm whether the budgeted allocation was not exceeded for each item.

Recommendation

A vote book must be maintained to ensure funds are used for the intended purpose and there are no over expenditure on the expenditure items.

2.0 Procurement of Goods, Services and Works

2.1 Award of Contracts for Capital Projects

During the period under review, an amount of Kshs.147,084,606.30 **as per Schedule 2** was spent on capital projects. However, it was noted that the contracts were not properly executed as no proper evaluation was carried out resulting to awarding of contracts at higher prices. Further, scrutiny of the Bills of Quantities (BRS), minutes of the tender committees and other tender documents revealed the following irregularities:-

- (i) The evaluation procedures and criteria used were not set in the tender documents as required by Section 66 (2) of the Public Procurement and Disposal Act, 2005 but were introduced at the evaluation stage.
- (ii) Some of the merchants who were among the bidders had bought the tenders, filled and returned but were not included in the tender opening minutes during tender opening process and were left out. The bidders were therefore not among those considered for evaluation. There was no proper explanation given why the bidders were not included in the tender opening minutes.

- (iii) Some of the BQs had arithmetical errors which were not countersigned and which the tender evaluation committee did not detect. Confidential Business Questionnaires were not properly filled and in some cases the tender opening committee did not sign one or more pages of the tenders submitted by the merchants as required by section 60 (a) and (b) of the Public Procurement and Disposal Act,2005.
- (iv) A number of contract agreements were not signed between the procuring entity and the contractors as required by Section 68 of the Public Procurement and Disposal Act, 2005.

In view of the above, it was not possible to ascertain if proper procedures were followed in the award of the contracts worth Kshs.147,048,606.30 for the year ended 30 June 2013..

Recommendations

The County Executive should adhere to the Public Procurement & Disposal Act, 2005 and 2006 regulations and ensure a fair, competitive procurement is done in contract awarding. Recover all payments made without signed contractual agreements from the payee.

The County Executive should take administrative action on the officers who were negligent on their duties.

2.2 Payment for Consultancy Services

Examination of payment vouchers and supporting documents revealed that Mandera County Executive incurred an expenditure amounting to Kshs.56,368,000 as per Schedule 3 for consultancy services. However, the following anomalies were noted;

- a) The evaluation report indicated that Future link Consultant quoted Kshs.32,543,000 for the consultancy for livestock census. The original tenders for the same bidder however showed an amount of Ksh.25,493,000. It was not clear how the evaluation committee arrived at the Ksh.32,543,000 indicated for the bidder in the minutes.
- b) The evaluation report for the tenders for the detailed Engineering Design for Takaba Diagnostic Centre showed different list of merchants than those indicated in the Minutes of the Tender Opening Committee.
- c) The technical and financial proposal for all the bidders for the tenders for the detailed Engineering Design for Takaba Diagnostic Centre were not made available for audit review.
- d) The evaluation procedures and criteria used were not set in the tender documents as required by Section 66 (2) of the Public Procurement and Disposal Act, 2005 but were introduced at the evaluation stage.
- e) There was no Contract agreement signed between the procuring entity and the merchant for the contract for the detailed Engineering Design for Takaba Diagnostic Centre

Consequently, the propriety of the expenditure of Kshs.56,368 could not be confirmed for the year ended 30 June 2014.

Recommendations

- The Tender and Evaluation Committee should use proper procurement procedures in awarding contracts and the BQs should be arithmetically evaluated and lowest bidder awarded the contract.
- The County Executive should recover irregular difference of Kshs.7,000,000 between the bid price and amount shown in the bid minute for the Executive Committee consultant.
- The County Executive should take administrative actions against the Tender Executive Committee for allowing charges to the bid price submitted by bidders of future link consultant.

2.3 Irregular and Unaccounted for Goods and Services

The Mandera County Executive procured goods and services amounting to Kshs.27,179,850 **as per Schedule 4** during the period under review. However, it was noted that there were no proper request for quotation used. It did not indicate the officers who opened the quotations and the date opened was not indicated.

The goods procured were not received vide counter receipt vouchers (S13), not recorded in the stores ledgers and not issued out using counter requisition and issue vouchers (S11). Further, the point of use was not indicated and no inspection and acceptance committee report to confirm that the goods and services were delivered or rendered.

Some payments were made without L.P.Os, L.S.Os and therefore, it was not clear how the suppliers were identified.

In view of the above observations, it was not possible to ascertain whether the stores were delivered and used for the intended purposes.

Recommendations

- It is recommended that the County Executive comply with the relevant Government Financial Regulations and ensure that goods and services are procured in accordance with the Public Procured and Disposal Act, 2005.
- Payments should only processed in respect of demands for settlement of goods and services which have been supplied and or rendered in accordance with regulations, stores are received, entered in the stores ledgers register and issued out properly.
- Recover all payments made without value for money from the responsible officers.

2.4 Direct Procurement of Works

During the period under review, examination of payment vouchers and supporting documents revealed an expenditure amounting to Kshs.21,391,350 **as per Schedule 5** was

used for renovation of buildings. However, works were mainly procured without request for quotations. Further, where quotations were raised, they lacked reference numbers, date and signature of the officers who opened them. In addition some of the payments were not supported with bills of quantities, hence it was not possible to ascertain the nature of renovation carried out. In some cases, L.S.Os and other tender documents were irregularly prepared after the services were rendered.

Recommendation

- It is recommended that the County Executive carries out a fair, competitive procurement in contract awarding.
- The County Executive should adhere to the Public Procurement and Disposal Act, 2005 and Regulations, 2006.

2.5 Hire of Transport Services

Audit scrutiny of payment vouchers and other supporting documents relating to hire of transport revealed that the county government made payments of Kshs.17,412,200 **as per Schedule 6** for hire of motor vehicles. However, the following anomalies were observed;

- a) The services were mainly procured without request for quotations and sometimes quotations were floated after the services were rendered.
- b) Temporary work tickets were not opened for the hired vehicles, copies of the log books, insurance covers and driver's licenses were not attached to the payment vouchers.
- c) In some cases contract agreements were not signed between the County Government and the owners of the vehicles. It was also noted that some of the contract agreements were signed after the services were rendered.

In the circumstances, it was not clear whether the motor vehicles were hired or not.

Recommendations

- Contract agreements should be signed for all transactions between the County Government and the contractors.
- Temporary, work tickets should be opened for hired vehicles.
- Recover any unsupported payments for hire of transport services.

2.6 Irregular and unaccounted for Motor Vehicle Expenses

The County Government of Mandera used an amount of Kshs.7,419,184 **as per Schedule 7** on motor vehicle expenses or repairs. However, it was noted that spare parts and the repairs were directly procured without quotations contrary to section 29 of the Public Procurement and Disposal Act, 2005, log books and work tickets for the vehicles purported to have been hired were not made available for audit to confirm the repairs were indeed carried out.

There was no certificate of inspection issued by the public works mechanical department indicating the nature of repairs and estimated cost to ascertain whether it is economical to repair the motor vehicles. It was also observed that the vehicles were also not re-inspected after the repairs.

The tyres and other spare parts purported to have been procured were not recorded in the stores records. There were no issue vouchers availed for audit to confirm the point of use contrary to chapter 18.2 of the Government Financial Regulations and Procedures.

Recommendations

- The County Executive should ensure that goods and services are procured in accordance with the Public Procurement and Disposal Act, 2005.
- Vehicles are inspected before and after repairs.
- All repairs and goods are properly recorded on the log books and stores ledgers respectively.
- Recover any payments made for services or goods not rendered or delivered from the responsible parties.

2.7 Payments For Fuel

Examination of fuel records revealed that fuel worth Kshs.6,869,800 **as per Schedule 8** was not properly accounted for. The County Government provided a poorly maintained fuel register for audit review. The register reflected the registration number of the vehicles which drew the fuel, delivery notes and work tickets number. However, there were no detail order to support the fuel consumption. The LPOs against which the fuel was drawn and paid were not recorded in the register hence the fuel drawn by the vehicles could therefore not be related to the fuel ordered and paid for.

In view of the above observations, it was difficult to confirm how the fuel was procured and used.

Recommendation

- It is recommended that the County Executive should ensure that fuel purchased like any other stores recorded at the point of receipt and detail orders are properly documented so as to account for the fuel.
- Fuel consumption should also be supported appropriately.

3.0 Doubtful Travel and Accommodation Allowances

A review of the expenditure for allowances revealed that Mandera County Executive incurred expenditure totaling to Ksh.6,317,000 **as per Schedule 9** on payment of travel and

accommodation allowance for officers who travelled for official trips within and outside the County. However, audit verification disclosed the following anomalies:-

- a) Some of the payment vouchers were not supported with payment schedules showing names of the payees, travel documents such as air tickets, bus tickets, work tickets or invitation letters to support the expenditure.
- b) Some of the payment schedules supporting the expenditure were either not signed by the payees or were signed by one person without authority.
- c) Some officials hired vehicles when they were performing official duties within the County. However, the services were directly procured without floating quotations, no temporary work tickets were opened for the hired vehicles, and cash payments were made to the owners of the vehicles even when they were in the list of prequalified merchants to offer the services. No proper explanations were made as to why LSOs were not raised for the services. Further a cash payment was made to a local petrol station for the supply of 3,200 liters of diesel worth Kshs.448,000 without and L.P.O as required.

In the circumstances, it was not possible to confirm that the payment of Kshs.6,317,000 was a proper charge to public funds.

Recommendations

- It is recommended that all expenditures should be incurred in accordance with the relevant laws and be properly supported and are done for the benefit of the County.
- Recover any payments made without value for money.

4.0 Unsupported Casual Wages

Examination of payment vouchers relating to casual workers engaged during the period under review revealed that payments of Kshs.11,103,215 **as per Schedule 10** were made without following the laid down procedures. The payment vouchers were not supported with FO.79. There were no muster rolls maintained for the casuals to confirm the number of days they worked. In some cases, the location where the casuals worked and how they were engaged was not stated or clear.

Consequently, the authenticity of the payment of Kshs.11,103,215 could not be confirmed.

Recommendations

- The County Executive should ensure that muster rolls are maintained for the casual workers and should indicate the days the casuals were on duty.
- Recover any payments made without confirmation of work done.

5.0 Undeducted Withholding Tax

During the period under review, various projects such as building construction, roads and other works were implemented. It was observed that part payments were made to the contractors for the works done as at 30 June, 2014. However, a total of Kshs.18,697,884.93 **as per Schedule 11** was not deducted from the merchants in form of Withholding Tax and the contractors were paid the full amounts. The tax undeducted tax from the contractors represents loss of revenue by the County Government.

Recommendations

- It is recommended that the undeducted withholding tax be recovered from the payees (contractors).
- In future, the County Executive should ensure the withholding tax is deducted from every payment made to the contractors.
- The County Government Executive should take administrative action against the responsible officers for undeducted withholding tax.

6.0 PAYE Deduction from Revenue Allocation

Audit review of the Bank Statement for Mandera County Recurrent Account No.1000170913 at the Central Bank of Kenya revealed that an amount of Kshs.12, 934,678 was debited in the account by the bank following the Tax notice issued by the Kenya Revenue Authority to the Governor Central Bank of Kenya vide letter ref.no.PIN:P051419213X dated 16 December, 2013.

The amount according to the explanation of the (CEC) County Executive Committee member for Finance and Economic Planning and the correspondences between the Mandera County Government and The Kenya Revenue Authority (KRA) to relate outstanding PAYE to the former Local Authorities for the years 2010, 2011 and 2012.

The Tax deduction was supported by letters and reports from the KRA only. There were no documentary evidence availed to show that the former Town Council and County Council had Tax arrears. The Tax Liabilities were also not included in the handing over and taking over report of the former defunct Local Authorities during the Transition Period.

In view of the foregoing, observations audit could not establish the authenticity of the money deducted by the Central Bank on behalf of the Kenya Revenue Authority from the County Government of Mandera revenue allocation.

Recommendations

- The PAYE deduction of Kshs.12,934,678 should first have been paid to the County Government an agreement reached on its recovery.

- The Management of the former Local Authorities should be called upon to explain the circumstances that led to the outstanding Tax and why the PAYE was not deducted and settled despite the several demands made by the Kenya Revenue Authority.

7.0 Unvouched Expenditure

Examination of the Bank Statement for Mandera County Recurrent Account No. 1000170913 at the Central Bank of Kenya revealed that an amount of Kshs.10,200,000 was debited in the account. The payment was an RTGS payment to a contractor, M/s Nurki Construction Co.

There were no payment vouchers and other supporting documents availed to support the payment and the transaction was also not recorded in the development Cash book maintained by the County Executive.

Recommendations

- Payments made out of the County Government Bank Account must be supported by the relevant payment vouchers and other relevant documents. Avail the payment vouchers to confirm the authenticity of the expenditure of Kshs.10,200,000.
- Recover any payments not supported appropriately with assurance of delivery of goods and services rendered.

8.0 Human Resource

8.1 Lack of Human Resources Manuals and Scheme of Services

The County Government Public Services Board did not develop the requisite human resource manuals for use in the administration of the staff. The manuals are important as they guide the board on human resource issues including performance management, annual leave management, job descriptions, payroll management and staff discipline among others. It was explained that the county adopted the Public Service Commission policies on human resource. However, the minutes of the County Public Services Board which sanctioned the adoption was not made available for audit review.

Recommendation

- Develop and implement appropriate human resources manuals

8.2 Staff Recruitment

8.2.1 Posts Not Advertised

A review of the staff recruitment for Mandera County Executive revealed that Mandera County Executive recruited eleven (11) staff as in Appendix 2 some of them in senior positions were filled without advertisement. The positions were not competitively filled, hence it was not possible to ascertain whether the County Government got people of the right qualifications and competency as required.

Recommendation

- The County Executive should always advertise recruitment of staff

8.2.2 Recruitment of unqualified Staff

A review of the personal files and the advertisement as per Appendix 1 revealed that some staff were recruited who had no minimum qualifications as required by the advertisement.

Recommendations

- The County Executive should ensure recruited staff meet the minimum qualifications.
- Review the staff recruited and evaluate the suitability of the staff.

9.0 Integrated Payroll and Personnel Database (IPPD)

9.1 Mandera County Executive implemented use of IPPD system beginning August 2013. The IPPD audit exercise were for the month of April, May and June 2014 to December, 2014. The data that was analyzed revealed that Mrs. Saadia Adan Dhubane P/No. 20100001705, a former payroll administrator who has since been transferred to the County Treasury was still accessing the payroll data posing the risk of unauthorized access.

9.2 Irregular Payment of Salary and Overtime Allowances for the Payroll Manager

(i) Irregular Payment Of Overtime Allowances

A review of the IPPD Payroll for the months of May, 2014, June 2014, and September 2014 revealed that the Payroll Manager (PM) was irregularly paid overtime allowances amounting to Kshs.588,608 as detailed below:-

Month	Gross Pay Entitlement (Kshs)	Gross Pay Paid (Kshs)	Difference (Kshs)
May, 2014	51,800	318,754	266,954
June, 2014	52,650	189,514	136,854
September, 2014	52,650	237,450	<u>184,800</u>
			<u>588,608</u>

The overtime payment dated back to March, 2013. No explanation was given as to why the officer was paid the allowances when he was performing his official duties. The payment was not authorized by the Authority to Incur Expenditure holder hence was irregular.

Recommendation

- The County Executive should recover the irregular and unauthorized payment of overtime expenditure allowances of Kshs.588,608 from the payee.

(ii) Irregular Payment of Salaries- Kshs- 967,028

A review of the IPPD Payroll for the month of December, 2014 revealed that the payroll manager was irregularly paid salary amounting to Kshs.967,028 as detailed below:-

<u>Gross Pay Entitled To</u>	<u>Gross Pay Paid</u>	<u>Difference (Kshs)</u>
52,650	1,019,678	967,028

The amount of Kshs.967,028 was paid to the payroll manager over and above the salary entitlement in the month of December, 2014. The payment according to the payroll Manager was as a result of a promotion to the officer to the post of Deputy Director Human Resource Management and Development – Job Group Q back dated to January, 2014.

The payment was supported by letters written by the Director of Human Resource and County Chief Officer, Finance and Economic Planning authorizing the payment. The approval by the Director human resource and the Chief Officer was however not justified since the alleged promotion was not done by the County Services Board. It was not clear why the County Services Board did not authorize the promotion.

The payment of Ksh.967,028 to the payroll manager over and above his salary entitlement in the month of December, 2014 therefore remains irregular and should be recovered in full.

Recommendation

- Recover the full amount of salary overpayment of Kshs.967,028 from the responsible officer.

10.0 Integrated Financial Management Information System (IFMIS)

The County Government adopted the G PAY and IFMIS System in the month of April, 2014. The County however utilized the Procure to pay module only. The rest of the modules i.e Plan to budget (P2P), Revenue to Cash (R2C), Record to Report (R2R) and ICT to Support (ICT2S) are yet to be utilized.

Recommendation

- The County should fully adopt IFMIS for its financial operations and ensure all the modules are in use for data integrity and accurate financial reporting.

11.0 Information Technology Environment

The County Government IT environment was observed to have several challenges. The County Executive does not have an approved IT strategic plan that supports operation requirements of the county, no training program to build IT capacity, no formally documented and approved processes to manage, upgrade and system changes made to all information systems, no documented schedule for routine maintenance and no IT strategic Committee and an IT Steering committee.

Recommendations

- The County Executive should set up an ICT Steering Committee and Strategic committee to oversee the operations of the ICT department.
- Develop and implement disaster recovery the procedures to be followed in the event of a disaster within its premises.

Develop and implement and IT strategic plan and training IT staff.

12.0 Under Collection of Revenue

Audit scrutiny of the County approved budget for the Financial Year 2013/2014 revealed that the County Government budgeted local revenue collection amount of Kshs.437,400,000. However, Examination of revenue records such as cash books and bank statements revealed that a total of Kshs.97,445,692.35 representing 22.2% of the amount budgeted was collected as at 30 June 2014 resulting to an uncollected revenue balance of Ksh.339,954,307.70.

The County management explained that the revenue target could not be achieved because of security reasons. The under collection however can seriously impact the operations of the county.

Recommendation

- The County Executive should put in place proper measures to enhance the revenue collection in the County

13.0 Non-Current Assets-Failure to Maintain Asset Register

The County Executive does not maintain a permanent and expendable register to record the assets of permanent nature instead they prepare a soft copy to capture the assets. It was further noted that the asset schedule did not show the serial numbers and location of the assets recorded. Further, the taking over of the defunct local authorities assets have not been fully taken over and recovered in the assets register.

Recommendation

- The County Executive should maintain a permanent and expendable register for all its assets at all times and update the same as assets are acquired.
- The defunct local authorities assets should be fully taken over and recorded appropriately.

Conclusion

The County Government Executive had challenges in its first year of operation in managing the use of public resources. Adherence to the constitution, The Public Finance Management Act,2012, the Public Procurement and Disposal Act, 2005 and

Regulations, 2006 will enable the County Executive improve its financial management for the benefits of he County residents.

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

Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

21 May 2015