

REPUBLIC OF KENYA



REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL OPERATIONS

OF

NYAMIRA 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 NYAMIRA COUNTY ASSEMBLY FOR THE PERIOD 1 JULY 2013 TO 30 JUNE 2014

EXECUTIVE SUMMARY

BACKGROUND INFORMATION

Introduction

The management and financial operations audit covers the period 1 July 2013 to 30 June 2014. It was undertaken to assess the adequacy and reliability of management and financial controls instituted by the management of the County Assembly in running its affairs with emphasis to the utilization of public resources.

Terms of Reference

The Office of the Auditor-General is an independent office mandated by the constitution in (Article 229) to audit the accounts of the National and County Government. In this regard, the office planned an audit of the systems of management and financial controls of Nyamira County Assembly for the period July 2013 to 30 June 2014 with the following terms of references:

- Assessment of controls over management of cash and bank accounts.
- Assessment of controls over management of assets under the control of the county Government.
- Assessment of compliance with the procurement laws in the process of acquisition of goods or services
- Assessment of compliance with Public Finance Management Act, 2012 in the utilization of public funds.
- Compliance with other relevant laws and regulations
- To ascertain the integrity and reliability of financial and other information used by management in the utilization of public funds.
- All necessary supporting documents, records, and accounts have been kept in respect of all transactions

Methodology

The approach used in carrying out this audit included the following:

- Interviews with key officers at the County headquarters.
- Review of applicable legislation and regulations.
- Examination of payment vouchers, cashbooks, vote books, bank statements, bank slips, receipt books, procurement documents, stores records, asset registers and other related records.
- Review of minutes of various meetings where there were resolutions regarding utilization of public funds.
- Physical inspection and verifications
- Observation of processes and activities.
- Review of documents used by management to monitor use of funds.

Scope and Determination of Responsibilities

The audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). These standards require that the audit is planned and performed so as to obtain reasonable assurance that, in all material respects, expenditure incurred is fairly stated and fair recording is achieved in all financial transactions.

The maintenance of effective control measures and compliance with laws and regulations are the responsibility of the management. My responsibility is to report on the weaknesses that were identified in the course of the audit.

KEY AUDIT FINDINGS

1.0 Internal Control Weaknesses

During the evaluation of internal control of the County Assembly with regard to its expenditures, it was found that the set control procedures like authorization, examination and entry in the vote books of payment vouchers were not consistently followed by responsible officials.

2.0 Integrated Financial Management Information System (IFMIS)

The County Assembly had not implemented IFMIS during the year under review contrary to Public Finance Management Act, 2012 which requires County Government entities to operate a financial management system that complies with national standards. In the

circumstances, the propriety of the payments made outside the IFMIS system could not be confirmed.

3.0 Non-Maintenance of Accounting Records

The Assembly does not maintain vote books, neither does it produce monthly ledgers. Examination of bank records showed huge cash withdrawals or cashing of cheques totaling Kshs.60,549,213 for the period between 3 February 2014 and 31 March 2014 and Kshs.33,374,619 from the imprest account between May 2014 and 30 June 2014.

4.0 Failure to Maintain Assets Register

During the audit carried out in the months of July 2014 and February 2015, it was established that no Assets register was maintained to record the assets procured by the Assembly since its inception.

5.0 Procurement Plan

The County Assembly did not prepare a procurement plan for the year 2013/14. This was contrary to section 26(3)(a) of the Public Procurement and Disposal Act, 2005.

Expenditure Review

6.0 Procurement of Air Tickets

The Assembly in the months of February, March and June 2014 bought Air tickets through single sourcing all totalling to Kshs.9,594,400 from two suppliers. The purchase of the Air tickets did not promote transparency and accountability in public expenditure.

7.0 Direct Procurement of Foreign Training Services

The Assembly directly sourced for training programmes from three organizations at a cost of Kshs.5,097,500. It has not been explained how the service providers were identified.

8.0 Insurance Cover for Staff and Members of County Assembly (MCAs).

In the month of March 2014, the County Assembly tender committee issued quotations contrary to procurement regulations for the provision of medical, life assurance and group accident cover for Staff and members of the County Assembly. The quotations were received, opened, evaluated and awarded on 18 March 2014 to the lowest evaluated bidder at a contract sum of Kshs.30,000,000. Payment for the contract was made on 4 April 2014 through cheque No.95. However, the insurance policy document detailing the terms of the contract was not availed for audit verification.

9.0 Rent for Ward Offices

The Assembly made payments totalling Kshs.800,000 to MCAs in the month of April and May 2014 as rental expenses for 20 ward offices. However rental/lease agreements

between the Assembly and land lords were not provided to confirm the terms of the tenancy. In the absence of lease agreements, the resources of the Assembly were not used in a way that is lawful and authorized.

10.0 Sitting Allowances not supported

In the month of March 2014 a total of Kshs.2,642,640 was paid as sitting allowances to MCAs for meetings held in the month of February 2014 and March 2014. However, the attendance register supporting the allowances was not availed for verification. Under the circumstances the propriety of the expenditure could not be confirmed.

11.0 Civic Education Programme

During the period under review the County Assembly spent a total of Kshs.22,409,910 on civic education programme in 20 wards. The programme was carried out in the month of March 2014, however, the programme was not carried out in accordance with regulations governing civic education as outlined in the County Governments Act, 2012.

12.0 Unsupported payment of Night outs and Transport Allowance to County Assembly Members and Other Staff

The County Assembly paid out Kshs.5,118,000 and Kshs.507,000 for night outs and transport allowances respectively totaling Kshs.5,625,000 to Members of the County Assembly while attending meetings in Kisumu and Mombasa. However no signed attendance list and how the MCAs and staff travelled to the venues of the meetings were availed for audit verification.

13.0 Recruitment of Ward Officers

The County Assembly made payments for salaries totalling Kshs. 6,999,740 to 60 officers in the 20 wards for administration of ward offices. The officers employed (Personal Assistant to MCA, Secretary and Security Guard) were not recruited by the CASB as required by section 59(1)(b) of the County Governments Act. In the absence of a transparent recruitment process, it was not possible to confirm if the expenditure of Kshs.6,999,740 for the wards was a proper charge to public expenditure.

14.0 Procurement of Legal Services

In the month of May 2014, the County Assembly Service Board engaged a law firm to represent it in legal matters. In the month of June 2014, a total of Kshs.1,637,000 was paid as legal costs for case No.14 of 2014 at the Kisii High Court. However, the process through which the firm was identified was not disclosed by management, and the award of tenders was done by the County Assembly Service Board rather than the tender committee contrary to procurement regulations.

15.0 Procurement of Furniture for Ward Offices

The Assembly in the month of December 2013 paid Kshs.100,000 each to 20 ward representatives to purchase furniture for ward offices. The purchases were made through cash contrary to provisions of the Act. Further the purchases were not taken on charge and recorded in the Assets Register.

16.0 Payment of Local Transport Allowances

Payments totalling Kshs.1,639,000 were made as allowances/refunds for travel expenditure incurred by MCAs and officers in the month of May and June 2014. The payments were made to MCAs and officers while travelling to and from various meetings organized within the Country. However, the rates of the allowances were arbitrarily set and were not in accordance with Government Regulations.

17.0 Subsistence Allowances on Foreign Tours

In the month of May and June 2014 a total of Kshs.18,830,907 was paid as subsistence allowances, local transport costs and visa processing fees to MCAs for visiting Israel, China, Rwanda, Malaysia and Singapore.

Payments for the foreign tours were paid in advance through cash to MCAs. However, no travel documents such as air tickets, copies of passports and boarding passes for Kshs.12,305,532 were availed to confirm the occurrence of the tours.

18.0 Double Payment of Subsistence Allowances

In the month of June 2014, the Assembly made several payments to members of various committees for attending workshops in different places. Scrutiny of payment vouchers revealed that payments were grossly duplicated resulting in loss of Kshs.717,000.

19.0 Payment of Commuter Allowances to Members of the County Assembly

All the Members of the County Assembly were paid a maximum monthly mileage allowance of Kshs.39,528 each with effect from January 2014 irrespective of the distance from their homes to the Assembly contrary to SRC circular Ref No SRC/TS/CGOVT/3/16 dated 15 November 2013 which provides that each member be paid mileage allowance at standard rate of Kshs.109.80 per km up to a maximum of 45 kilometers return. This expenditure appears to be exaggerated since members of the County Assembly from Kitutu Masaba, West Mugirango and North Mugirango constituencies are far below the 45 kilometers radius.

Thirty three (33) Members of the County Assembly were paid commuter allowances totalling Kshs.2,608,848 for the month of December 2013 and January 2014 at the rate

of Kshs.39,528 per member per month while the Assembly had adjourned for recess in December 2013 and resumed its sittings on 11 February 2014.

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 THE COUNTY ASSEMBLY OF NYAMIRA FOR THE PERIOD 1 JULY 2013 TO 30 JUNE 2014

DETAILED FINDINGS

1.0 Internal Control Weaknesses

During the evaluation of internal control of the County Assembly with regard to its expenditures, it was found that the set control procedures were not consistently followed by responsible officials. The following general weaknesses were noted:

- Payment vouchers were not serially numbered as required by financial regulations.
- No vote book entries were made on the face value of the vouchers making it difficult to control the set expenditure limits.
- Classification of most expenditure items were not disclosed on the vouchers.
- The Cash book was not balanced daily as required.

Recommendation

- Payment vouchers should be properly prepared and maintained.
- Cash book should be balanced daily.

2.0 Integrated Financial Management Information System (IFMIS)

The County Assembly had not implemented IFMIS during the period under review contrary to Public Finance Management Act 2012 which requires county government entities to operate a financial management system that complies with national standards. In the circumstances, the propriety of the payments made outside the IFMIS system could not be confirmed.

Recommendation

ICT regarding Financial Management should be implemented including IFMIS and G-Pay to enhance accountability and good governance.

3.0 Non-Maintenance of Accounting Records

No ledgers and vote books were maintained by the County Assembly. Examination of bank records showed huge cash withdrawals or cashing of cheques totaling Kshs.60,549,213 from the Assembly Account during the period between 3 February 2014 and 31 March 2014 and Kshs.33,374,619 from the imprest account between May 2014 and 30 June 2014. The cash withdrawals could easily lead to the risk of misappropriation of public funds.

The Assembly operated a bank account No.1142325717 at KCB-Nyamira branch which was not reconciled at the end of February 2014 and March 2014 as required by financial regulations.

Recommendation

- (i) Cash book should be balanced daily and monthly bank reconciliations done.
- (ii) Ledgers and Vote books should be introduced.

4.0 Failure to Maintain Assets Register

During the audit carried out in July 2014 and February 2015, it was established that no Assets register was maintained to record the assets procured by the Assembly since its inception.

Recommendation

An Assets Register for all assets bought by the County Assembly should be maintained.

5.0 Procurement Plan

The County Assembly did not prepare a procurement plan for the period under review which could have enabled the institution to plan all procurements necessary for the activities of the entity. This was contrary to section 26(3)(a) of the Public Procurement and Disposal Act 2005.

Recommendation

The County Assembly as a procuring entity should prepare an annual plan at the beginning of every financial year according to section 21 of the Public Procurement and Disposal Act, 2005.

Expenditure Review

6.0 Procurement of Air Tickets

The Assembly in the months of February, March and June 2014 spent Kshs.9,594,400 on Air tickets directly sourced from two suppliers contrary to section 88 of the Act. The purchase of the Air tickets did not promote transparency and accountability in public expenditure.

Recommendation

The management should ensure that provisions of the Public Procurement and Disposal Act, 2005 and Regulations of 2006 and 2013 are adhered to in the procurement of goods and services.

7.0 Direct Procurement of Foreign Training Services

The Assembly also directly sourced for training programmes from three organizations; KCA University, Factor Connect Ltd and Pan African Institute of Management at a cost of Kshs.2,360,000, Kshs.1,665,000 and Kshs.1,072,500 respectively all totalling to Kshs.5,097,500. It has not been explained how the service providers were identified.

Recommendation

The management should ensure that the provisions of the Public Procurement and Disposal Act, 2005 and Regulations of 2006 and 2013 are adhered to in procurement of goods and services.

8.0 Procurement of Insurance Cover for Staff and Members of County Assembly (MCAs).

In the month of March 2014, the County Assembly tender committee issued quotations contrary to procurement regulations for the provision of medical, life assurance and group accident cover for Staff and members of the County Assembly. The quotations were received, opened, evaluated and awarded on 18 March 2014 to the lowest evaluated bidder at a contract sum of Kshs.30,000,000. Payment for the contract was made on 4 April 2014 through cheque No.95. However, the insurance policy document detailing the terms of the contract was not availed. Management has indicated that they have instituted legal proceedings to recover the amount paid to the insurance broker. There was no document produced to confirm that the legal proceeding has commenced. Under the circumstances, the propriety of the expenditure could not be confirmed.

Recommendation

- (i) The Assembly should institute legal proceedings to recover Kshs.30 million already paid to the service provider.
- (ii) The Assembly should advertise the contract afresh through open tendering.

9.0 Rent for Ward Offices

The Assembly made payments totalling Kshs.800,000 in the months of April and May 2014 as rental expenses for 20 ward offices. The money was paid in cash to the MCAs and no rental/lease agreements by land lords were provided to confirm the terms of the

tenancy. In the absence of lease agreements, the resources of the Assembly were not used in a way that is lawful and authorized.

Recommendation

- (i) Provision for ward office spaces should be subjected to the procurement regulations.
- (ii) Lease agreements should be availed and payments should be made directly to the landlord.
- (iii) The MCA's should account for the money paid or the same be recovered from their salary.

10.0 Sitting Allowances not supported

In the month of March 2014 a total of Kshs.2,642,640 was paid as sitting allowances to MCAs vide cheque number 71 for meetings held between 16 February and 15 March 2014. However, the attendance register supporting the allowances was not availed for verification. Under the circumstances the propriety of the expenditure could not be confirmed.

Recommendation

Management should ensure that proper attendance registers are in place to support sitting allowances paid/payable.

11.0 Civic Education Programme

During the period under review the County Assembly spent a total of Kshs.22,409,910 on civic education programme in 20 wards. The programme which was carried out in the month of March 2014, was not done in accordance with regulations governing civic education as outlined in the County Governments Act, 2012 as detailed below:

- i) No appropriate civic education unit was formed as per section 100(1) of the County Governments Act, 2012.
- ii) There was no evidence that the National Government facilitated the civic education as required by section 100(3) of the County Governments Act, 2012.
- iii) The total expenditure for the civic education programme exceeded its approved budget by Kshs.15,409,910.
- iv) There was no requisite legislation providing the institutional framework for the civic education as required by section 101 of the Act.

- v) Goods and services procured for the programme were purchased in complete disregard to the provisions of the Public Procurement and Disposal Act, 2005. This included payment of security guards, refreshments, payments to promoters of civic education, training fee for civic education, hire of tents and purchase of stationery & pens at a cost of Kshs.2,000,000, Kshs 9,252,000, Kshs.2,100,000, Kshs.1,008,000, Kshs.1,800,000 and Kshs.2,663,910 respectively all totalling to Kshs.18,823,910. Further, there was no evidence that the goods bought were taken on charge.

Recommendation

The management should ensure that civic education programmes are implemented according to the regulations and County Government Act, 2012 and proper procurement procedures followed.

12.0 Unsupported payment of Night outs and Transport Allowance to County Assembly Members and Other Staff

The County Assembly paid out Kshs.5,118,000 and Kshs.507,000 for night outs and transport allowances respectively totalling Kshs.5,625,000 to members of the County Assembly while attending meetings in Kisumu and Mombasa. However no supporting documents were availed to show who the officer were and whether they travelled or not.

Recommendation

The MCAs and staff should support the payments otherwise the same be recovered from their salaries.

13.0 Recruitment of Ward Officers

In the year under review, the County Assembly made payments directly to MCAs for payment of salaries totalling Kshs.6,999,740 to 60 officers in the 20 wards for the administration of ward offices. The officers employed (Personal Assistant to MCA, Secretary and Security Guard) were not recruited by the CPSB as required by section 59(1)(b) of the County Governments Act. In the absence of a transparent recruitment process, it was not possible to confirm if the expenditure of Kshs.6,999,740 for the wards was a proper charge to public expenditure.

Recommendation

All appointments and confirmation of employees for the County Assembly should be done by the County Assembly Service Board. Further, the MCAs should account for the money otherwise the same be recovered from their salaries.

14.0 Procurement of Legal Services

In the month of May 2014, the County Assembly Service Board engaged a law firm to represent it in legal matters. In the month of June 2014, a total of Kshs.1,637,000 was paid as legal costs for case No.14 of 2014 at the Kisii High Court. However, the process through which the firm was identified was not disclosed by management, and the award of tenders was done by the County Assembly Service Board rather than the tender committee contrary to procurement regulations.

Recommendation

All services relating to award of tenders should be done by the Assembly tender committee.

15.0 Procurement of Furniture for Ward Offices

The Assembly in the month of December 2013 paid Kshs.100,000 each to 20 ward representatives to purchase furniture for ward offices. The purchases were made through cash contrary to provisions of the Act. Further the purchases were not taken on charge and recorded in the Assets Register.

Recommendation

The management should ensure that the provisions of the Public Procurement and Disposal Act, 2005 and Regulations of 2006 and 2013 are adhered to in procurement of goods and services.

16.0 Payment of Transport Allowances

Payments totalling Kshs.1,639,000 were made as allowances / refunds for travel expenditure incurred by MCAs and officers in the month of May and June 2014. The payments were made to MCAs and officers while travelling to and from various meetings organized within the Country. However, the rates of the allowances were arbitrarily set and were not supported by Government Regulations. The management asserts that the Salaries and Remuneration Commission advised that County Government entities determine their own rates, no evidence of approved rates has been adopted by the Assembly.

Recommendation

- (i) The Assembly should apply a cost effective measure of transporting MCAs and staff to official functions and should also consider pre-qualifying tour companies to provide transport services and when required.
- (ii) The Assembly should consider pre-qualifying transport firms to provide transport services as and when required.

17.0 Subsistence Allowances on Foreign Tours

In the month of May and June 2014 a total of Kshs.18,830,907 was paid as subsistence allowances, local transport costs and visa processing fees to MCAs for visiting Israel, China, Rwanda, Malaysia and Singapore vide voucher number 12907 and 13360 dated 19 June 2014 of Kshs.5,948,093 and Kshs.5,255,478 respectively and voucher number 13745 and 12753 dated 26 June 2014 of Kshs.6,357,442 and Kshs.1,269,878 respectively.

Payments for the foreign tours were paid in advance through cash to MCAs. However, no travel documents such as air tickets, copies of passports and boarding passes were availed to confirm the occurrence of the tours.

Recommendation

- (i) MCAs should be issued with imprests which should be surrendered after completion of international tours.
- (ii) Travel documents as copies of air tickets and copies of exit and entry stamps of the countries visited should be availed.
- (iii) In the absence of these supporting documents recovery action should be taken.

18.0 Double Payment of Subsistence Allowances

In the month of June 2014, the Assembly made several payments to members of various committees for attending workshops in different places. Scrutiny of payment vouchers revealed that payments were grossly duplicated resulting in loss of Kshs.717,000.

Although management has defended the payments by saying the dates of the trips were later changed, no documentary evidence has been availed to confirm the same.

Recommendation

- (i) Copies of passport documents for the MCAs should be availed to confirm the delay in flights to China from 14 June 2014 to 4 July 2014.
- (ii) Rescheduled meetings should be supported by approval letters.
- (iii) In the absence of these supporting documents recovery action should be taken.

19.0 Payment of Commuter Allowances to Members of the County Assembly.

All the Members of the County Assembly were paid a maximum monthly mileage allowance of Kshs.39,528 each with effect from January 2014 irrespective of the distance from their homes to the Assembly contrary to SRC circular Ref No SRC/TS/CGOVT/3/16

dated 15 November 2013 which provides that each member be paid mileage allowance at standard rate of Kshs.109.80 per km up to a maximum of 45 kilometers return. In our opinion this expenditure appears to be exaggerated since members of the County Assembly from Kitutu Masaba, West Mugirango and North Mugirango constituencies are far below the 45 kilometers radius.

Thirty three (33) Members of the County Assembly were paid commuter allowances totalling Kshs.2,608,848 for the month of December 2013 and January 2014 at the rate of Kshs.39,528 per member per month while the Assembly had adjourned for recess in December 2013 and resumed its sittings on 11 February 2014.

Recommendation

Allowances irregularly paid should be recovered.

Payment of monthly mileage allowance should be based on distance covered between the members home and the County Headquarters.



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

28 May 2015