

REPUBLIC OF KENYA



REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL OPERATIONS

OF

THARAKA-NITHI

COUNTY EXECUTIVE

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

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REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL OPERATIONS OF THARAKA-NITHI 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 and financial operations of 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 County Executive were reliable for the management of the County's finances in the delivery of service to the local residents.

The terms of reference set for 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 service.
- Bursaries.
- Imprests and advances.
- Cash and bank balances.
- Human Resource Records.
- I T Environment.
- Non-current assets.
- AIE's.
- Debtors.
- Creditors.

Key Audit Findings

1.0 Budgetary Control and Performance

1.1 Unspent Funds

An amount of Kshs.111,700,000 was transferred to the health sector being funds meant for the development of different health centers. However at the closure of the 2013/2014 financial year, the fund had not been spent and neither was it repaid to the county revenue fund or a refund statement was prepared in regard to the fund.

1.2 Failure to Produce Ledger Accounts and Other Statutory Reports

The expenditure returns made available for audit indicated that the County Executive incurred an expenditure of Kshs.884,882,885 as at 30 June 2014. However, no monthly ledgers to support the expenditure in respect of recurrent and development votes were provided. Further, the County Treasury was using the manual vote book and the Integrated Financial Management Information System (IFMIS) concurrently. The two accounting systems in use did not produce ledger accounts, trial balances, statutory control reports, detailed head/item analysis and AIE expenditure statements complete with grouping of accounts codes in to the prescribed bands as required by Section 5.11.3 of Government Financial Regulations and Procedures.

1.3 Poor Maintenance of Accounting Records

The total expenditure incurred by the County Executive as per the IFMIS vote books differed with the expenditure returns summary as at 30 June 2014. The recurrent expenditure reflected in the expenditure returns exceeded the IFMIS vote books by Kshs.474,107,183 while the development expenditure in the IFMIS vote book exceeded the expenditure returns amount by Kshs.48,047,353.

2.0 Expenditure

2.1 Unauthorized Expenditure

Examination of payment vouchers disclosed that an amount of Kshs.56,785,505 processed for payments was not authorized by the AIE's holders. Further, none of the vouchers had been certified by the examination functions as required.

2.2 Unaccounted for Expenditure

Examination of the vote book revealed that an expenditure of Kshs.46,402,882 was incurred under various sub heads during the period under review. However, the expenditure was not accounted for as no supporting documents were produced for audit verification.

2.3 Unsupported expenditure

An expenditure of Kshs.12,813,910 was incurred under the Office of the Governor and Deputy Governor Sub heads during the period under review. However, the expenditure was not supported as required.

3.0 Cash and Bank Balances

The County Executive operated four main cash books namely; Recurrent, Development, Revenue and the Imprest cash book. However, some cash books were not balanced daily and no bank reconciliations were prepared on a monthly basis.

4.0 Procurement of Goods, Works and Services

4.1 Irregular Procurement of Motor Vehicles

The County Executive procured motor vehicles worth Kshs.41,881,755 from a firm in Nairobi, using direct procurement method. No reasons were provided for the departure from the open tendering procurement method required by Section 62 of the Public Procurement and Disposal Regulation, 2006 (Revised 2013).

4.2 Unaccounted for Expenditure

Expenditure records disclosed that goods worth Kshs.334,545 procured by the Office of the Governor and Deputy Governor had not been recorded in the store ledgers as required.

4.3 Irregular Procurement of Goods and Services

Goods, Works and Services worth Kshs.570,635 were procured without following the requirements of the Public Procurement and Disposal Act, 2005.

4.4 Irregular Procurement of Services

A total of Kshs.3,645,960 was paid to a firm in Nairobi, for services rendered to the County Executive. The expenditure was in respect of County Devolution Educational study tour to Israel between 10 and 19 January 2014 by five (5) persons at a cost of Kshs.352,000 each. However, no evidence of competitive sourcing of the service through open tender was provided for audit review.

4.5 Irregular Procurement of Goods

Examination of expenditure records for the department of water services revealed that a firm, was paid Kshs.11,083,050 for supply of pipes for various water projects. However, the Executive procurement unit did not prequalify merchants or prepare a list of suppliers for the purpose of procurement and disposal of assets. Further, scrutiny of the payment vouchers revealed that, there was no inspection and acceptance committee reports for the supplies made. In addition, no records were maintained to show how the pipes were distributed.

4.6 Unaccounted for Grants

A payment of Kshs.200,000 was made to a water project vide payment voucher number 0956 dated 02 December 2013 and cheque number 1429. However, no records were made available for audit review to show how the amount was spent.

4.7 Unspent Development Expenditure

The County Executive had an unspent balance of Kshs.61,592,200 under Infrastructure Development as at 30 June 2014. The amount was not surrendered to the County Exchequer Account as required but instead it was spent. Out of this amount, Kshs.56,308,356 out of Kshs.61,592,200 was spent on procurement of building materials for construction of an office block, payment of casual workers and procurement of office equipment and furniture. The funds were controlled through the manual vote book which reflected a balance of Kshs.5,283,844 in the two (2) sub votes.

Although the balance was explained to have been exhausted, no documents were made available for audit verification to confirm how the amount was spent.

4.8 Direct Procurement of Goods

The County Executive procured goods worth Kshs.613,507 on cash basis contrary to the procurement procedures. There was no evidence that the items were taken on charge in the store ledgers and no requisition orders from user departments were produced for audit review to confirm the origin of the orders and distribution of the items.

4.9 Supply of Goods and Services by Non Pre-qualified Suppliers

The County Executive procured assorted goods for the construction and equipping of the temporary offices for the County headquarters at Kathwana at a cost of Kshs.56,351,060. However, audit verification revealed that the goods and services were procured from firms which were not pre-qualified by the County Tender Committee. It was, therefore, not clear how the firms that supplied the goods were identified.

4.10 Poor workmanship in the Construction of Temporary offices at Kathwana

The County Executive spent Kshs.56,351,060 in the construction of County offices at Kathwana and purchase of office equipment and furniture. The estimated cost of the project was Kshs.16,853,095. However as at the time of audit, Kshs.18,175,771 had been spent on the construction of the offices.

A site visit on 22 May 2014 revealed that the floor of the County offices was poorly done since some parts were peeling off, a clear indication of poor workmanship. Further, the cost already incurred does not reflect the kind of structure being constructed.

4.11 Procurement of Civil Works

The County Executive had a budget of Kshs.575,400,000 for road works, learning and health Institutions, social amenities and other infrastructural works in the County. Out of this amount, the County had made payments totaling Kshs.136,504,996 towards several road works and other construction works between January and March 2014.

However, the County used restricted tendering method of procurement to procure the civil works instead of open tender. Further, approval by the County Tender Committee to adopt the list of pre-qualified contractors by KERRA was not made available for audit verification.

4.12 Doubtful Procurement of Medical Drugs

A total payment of Kshs.8,774,400 was made to various firms in respect of assorted drugs supplied to the department of health. However, several procurement procedures were not followed and charging the same amount to a wrong vote without reallocation authority.

4.13 Irregular Procurement of Medical Equipment

Kshs.6,614,750 was paid to two firms for supplying assorted medical equipment to the department of health. However, procurement documents were not availed for audit verification and the fund were charged to a difference vote without reallocation authority.

4.14 Procurement of Plumbing Materials

The budgeted expenditure for this vote had an amount of Kshs.142,700,000. During the period under review, the total expenditure incurred was Kshs.113,450,808. Out of this amount, an expenditure of Kshs.9,317,800.00 was expended on procuring various classes of water fittings including UPVC pipes. However, audit verification of the store records revealed that the items were not taken on charge in the stores ledger cards though the counter receipt voucher (S13) were raised as proof of receipt. There were no counter issue vouchers (S11) to show the point of issue. It was therefore not possible to tell how the items were issued.

5.0 Outstanding Imprest

The amount of outstanding imprest as at 30 June 2014 totaled Kshs.40,601,813.00 as indicated by the imprest schedule made available for audit. The imprest schedule was an extract of the imprest register. These imprests have remained outstanding for long as some were issued in the 2013 calendar year. No measures have been put in place to have the imprests surrendered.

6.0 Revenue records

6.1 Weak controls in revenue collection

Examination of revenue records maintained at the County Treasury disclosed that the revenue cashier for Chuka Igamba Ngombe Sub County was responsible for receipt of cash, posting of miscellaneous receipts in the cashbook, preparation of collection control sheets as well as banking. Receipt cashbooks in the Sub Counties had not been checked regularly by a senior official or the internal audit to confirm the accuracy of the revenue recording. There was no segregation of duties. This could encourage fraud at the sub-county.

6.2 Under banking of revenue

During the period under review, three sub-counties had collected a total of Kshs.29,556,206. However, a comparison of these collections to the actual banking made to the Tharaka-Nithi Revenue Account revealed that the revenue had been under banked by Kshs.2,125,947 which needs to be investigated.

6.3 Uncollected revenue

Revenue amounting to Kshs.27,188,236 was outstanding as at 30 June 2014. It was further noted that these arrears were not disclosed in the notes to the financial statements.

6.4 Under collection of revenue

Comparison of revenue collected between July 2012 and March 2013 and July 2013 and March 2014 in the sub counties of Chuka Igamba Ngombe and Chuka Urban revealed an under collection of revenue in the year 2013/2014 totaling Kshs.9,040,063.

6.5 Unaccounted for receipt books and expected revenue

Examination of the Counter Receipt Book for Chuka Igamba Ngombe and Maara Sub counties revealed that, revenue totaling Kshs.220,000 and Kshs.951,440 respectively could not be accounted for as some receipt books from revenue collectors had not been received in the office by the time of audit on 19 April 2014. The books were issued on diverse dates between 7 December 2013 and 25 March 2014.

6.6 Under/over cast of Miscellaneous Receipts in the Revenue Cashbook

Some miscellaneous receipts for Igamba Ng'ombe Sub-county were incorrectly posted in the cashbook resulting in unaccounted for revenue of Kshs.111,700.

7.0 Emergency Fund

7.1 Irregularities in the Operationalization of the Emergency Fund

The County Executive budgeted for an emergency fund of Kshs.14,000,000. Audit verification revealed that Kshs.8,806,716 had been spent and Kshs.4,468,340 had been committed in the vote book.

However, out of the Kshs.8,806,716 spent, Kshs.2,053,540 was paid to a firm in respect of supplying assorted medical equipment while Kshs.4,232,700 was used in procurement of assorted emergency drugs for the department of health. Audit review revealed that the medical equipment had been supplied but were not in use at the Chuka District hospital where they were kept. Further, the drugs procured were all issued to a private institution.

8.0 Human Resource

8.1 Human Resource Department

The County Executive had not created a human resource department as at April 2014 and therefore lacked qualified staff to undertake the human resource management roles. Instead it had only a payroll office which was mainly tasked with the responsibility of running the payroll and maintenance of staff personal files. Further, there was no human resource policy in place that would be used in guiding the various human resource functions.

8.2 Recruitment of Staff

Advertisement for the recruitment of the County Public Service Board (CPSB) was placed in a local daily on 11 April 2013. However, minutes of the opening and short listing of prospective candidates were not made available for audit. Further, five members were appointed to the board instead of the maximum four as required by the County Government Act, 2012.

8.3 Irregular recruitment of Personnel

Examination of staff records revealed that 189 officers were employed between January and March 2014. The officers were appointed on contract terms except the Finance Officers who were on a three month probation period after which they were to be appointed on permanent and pensionable terms. However, audit verification disclosed that the salaries and allowances payable to these employees were not supported by any circular from the Salaries and Remuneration Commission. It was therefore not clear how the salaries were determined for the respective posts. In addition, the budget for 2013/2014 had no provisions for the appointment of new staff.

8.4 PAYE Deductions

Examination of the payroll disclosed that PAYE deductions of some employees were under charged during the period July 2013 to February 2014. The total amount undercharged was Kshs.1,186,661.

8.5 Discrepancies in the Payroll

Examination of the payroll disclosed that the number of employees recorded in the staff register in the IPPD differed with the list of staff data finally processed for payment of the monthly salaries.

8.6 Non remittance of Payroll Deductions

Examination of the payroll disclosed that statutory deduction totaling Kshs.832,653 had not been remitted to the respective institutions.

8.7 Ethnic Balancing

An ethnic analysis of all the employees working directly under the County Executive was carried out from the payrolls for the months of June, July and December 2013 and March 2014. The 30% rule was not observed in the recruitment of staff as required by the Constitution.

8.8 One Third Pay Rule

Examination of the payroll for the month of January 2014 disclosed that eight employees were receiving net salaries which were less than one third of their basic pay contrary to existing regulations.

9.0 Integrated Financial Management Information System (IFMIS) and G-Pay Production of inaccurate reports by IFMIS

The Integrated Financial Management Information System (IFMIS) was installed at the County Treasury in September 2013 and the treasury started using IFMIS and G-pay Systems on 02 December 2013. Further, scrutiny of the IFMIS ledger revealed that the system was not generating payment voucher numbers. Instead this was being done manually. It was also noted that the IFMIS system operates a cash book module. However, the two cash books in the system, development and recurrent, only show payments made but no receipts. The cash books were therefore overdrawn. It was explained that the concerned staff are not able to feed the necessary data for the cash books to reflect both the debit and credit entries.

10.0 Current Debtors

As at 31 March 2014, the County had accumulated debtors totaling Kshs.32,997,646. However, the debtors had not been recorded in a debtor's ledger and the amount was extracted from the records of the individual sub-counties.

11.0 Payables

A schedule of unpaid bills as at 30 June 2014 for Kshs.38,083,229 was provided in the county treasury. However, the L.P.O.s and invoices supporting these pending bills were not availed for verification and confirmation. The authenticity of the pending bills could not be confirmed.

12.0 Non-Current Assets

According to the financial statements prepared by the defunct local authorities in Tharaka Nithi County, as at 28 February 2013, non-current assets were valued at Kshs.269,457,498. However, official taking over of these assets by the County Government had not been done as at the time of audit. A master assets register had not been prepared by the County Government as at the 31 March 2014. It was, therefore not possible to confirm the actual value of the non-current assets. In addition, the County Executive had procured various categories of non-current assets including motor vehicles and constructed temporary offices at Kathwana among others. However, the assets had not been recorded in the fixed assets register.

13.0 Failure to issue Authority to Incur Expenditure (AIEs)

The County Executive had incurred expenditures totaling Kshs.884,882,881 as per expenditure returns, without the County Executive Committee Finance Member transmitting the General Warrant to all Accounting officers and authorizing them to incur expenditure.

A handwritten signature in black ink, appearing to read 'E. R. Ouko', with three dots below the signature.

Edward R.O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

28 May 2015

DETAILED AUDIT REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL OPERATIONS OF THARAKA NITHI COUNTY EXECUTIVE FOR THE PERIOD 1 JULY 2013 TO 30 JUNE 2014

1.0 Budgetary and Budgetary Controls

1.1 Unspent Funds

The county treasury transferred a total of Kshs.111,700,000 to the health sector being funds meant for the development of different health centers at Maara Sub-County and Chuka Igamba-Ng'ombe Sub-County. The funds were paid from the Tharaka-Nithi development account number 1000171359 to two different cost sharing fund accounts namely Magutuni Hospital Management Board current account number 1120076870 and Chuka District Hospital Management current account number 1103743147. The amounts paid were Kshs.39,100,000 and Kshs.72,600,000 respectively. The G-pay report showed that the transfer was done on 30 June 2014. However, audit verifications revealed the following anomalies:

- The transfers were both reflected in the respective bank statements on 2 July 2014. The Public Financial Management Act, 2012 requires that all unspent funds at the closure of the financial year are repaid to the County Revenue Fund Account. It was, therefore, not explained why the funds in question were not repaid to the County revenue fund as required.
- The projects for which the funds were transferred had not been implemented by the time the funds were disbursed, though the tendering process had started.
- No explanation was issued as to why the payments vouchers were written in the personal name of the Chief Officer, Health. Further, the two payment vouchers did not have identification number, vote, head, sub-head and item details. It was therefore not possible to tell from which sub-head the funds were charged. The payment vouchers were not authorized for payment neither did they pass through IFMIS.

Recommendation

The management should adhere to the provisions of the Public Finance Management Act, 2012, in regard to unspent appropriated funds.

2.0 Review of Accounting System

2.1 Inefficiency of accounting system

Audit review of the accounting system revealed that there were no monthly ledgers to support the expenditures of 2013/2014 financial year in respect of recurrent and development. Further, the monthly expenditure returns as at 30 June 2014 were not made available for audit review. It was therefore not possible to confirm the actual expenditure per item as at 30 June 2014. However, the G-Pay report for the period under audit showed that the total payments made amounted to Kshs.1,247,664,200. It was explained that the

G-pay report captured expenditures between December 2013 and June 2014 as the system was not in place between July 2013 and December 2013.

In addition, it was observed that the County Treasury did not produce ledger accounts, trial balances, statutory control reports, detailed head/item analysis and AIE expenditure statements complete with grouping of accounts codes in to the prescribed bands as required by chapter 5.11.3 of Government Financial Regulations and Procedures. Failure by the systems to produce these crucial accounting records subsequently failed to achieve the purpose of identifying or isolating both expenditure and revenue items.

Recommendations

- The management should enhance accountability in the management of the public funds by ensuring that the accounting system in place is effective and efficient.
- The necessary reports and accounting statements should be easily produced by the system to enhance Financial Management of the County Executive.

2.2 Poor Maintenance of Accounting Records

The total expenditure incurred by the County Executive as per the IFMIS vote books differed with the expenditure returns summary as at 30 June 2014. The discrepancies are as indicated here below:-

Details	Recurrent Kshs	Development Kshs
Expenditure Returns	708,956,850	175,926,036
IFMIS Vote Books	234,849,667	223,973,389
Unexplained Differences	474,107,183	-48,047,353

The differences between the two set of records was not explained.

Recommendations

- The County Executive should request the National Treasury to second experienced accountants to assist the county staff in setting up a proper accounting system in accordance with Section 14(1) of Public Finance Management Act, 2012.
- The differences noted between the IFMIS and expenditure returns should be reconciled and explained appropriately.

2.3 Unauthorized Expenditure

Examination of payment vouchers for the period under review disclosed that payments totaling Kshs.56,785,505 were processed for payment without authority for payment by the AIE's holders. Further, none of the vouchers had been examined or verified by the examination unit as required. The details are as follows:-

<u>Vote Head</u>	<u>Amount (Kshs)</u>
Financial Management Services	3,646,320
Office of the Governor and Deputy Governor	16,939,135
Agriculture, Livestock and Water Services	26,820,827
Infrastructure Development	<u>9,379,543</u>
Grand Total	<u>56,785,505</u>

No explanation was given for failure to have the expenditure authorized and certified as required by the Government Financial Regulations and Procedures.

Recommendations

- All payment vouchers must pass through the AIE holder and the head of Treasury for authentication and authorization respectively before payments are made.
- Further, an examination section should be established within the accounts department to ensure that payment vouchers are examined for their completeness before being presented for payment.

2.4 Unaccounted for Expenditure

Examination of the vote book revealed that an expenditure of Kshs.46,402,882 was incurred under various sub-heads. However, the expenditure was not accounted for as no supporting documents were produced for audit. The details are shown below;

<u>Vote Head</u>	<u>Amount (Kshs)</u>
Finance Management Services	2,298,189
Office of the Governor and Deputy Governor	8,928,496
Agriculture, Livestock and Water Services	6,700,000
Infrastructure Development	<u>28,476,197</u>
Grand Total	<u>46,402,882</u>

In the circumstances, the propriety of the expenditure could not be confirmed.

Recommendations

The County Treasury should ensure proper maintenance of accountable documents as required by the Public Finance Management Act, 2012.

The unaccounted for funds of Kshs.46,402,882 should be accounted for or recovered appropriately.

2.5 Unsupported expenditure

Examination of payment vouchers disclosed that an expenditure totaling Kshs.12,813,910 was incurred under the Office of the Governor and Deputy Governor sub-head during the period under review. However, no supporting documents for the expenditure were produced for audit verification.

Recommendation

It is recommended that the expenditure be fully supported for accountability purposes or be appropriately recovered.

3.0 Cash Management

The County Executive operates four main cash books namely; recurrent cash book, development cash book, revenue cash book and the Imprest cash book. Four bank accounts are operated as indicated:

Account Name	Bank	Nature
Imprest Account	Cooperative Bank	Current A/C
Development	Central Bank of Kenya	Development
Revenue	Equity Bank	Revenue
Recurrent	Central Bank of Kenya	Recurrent

Examination of the cashbooks disclosed the following irregularities:

3.1 Recurrent Cashbook

- The opening balance of Kshs.20,000,000 on the receipt side could not be traced to any document and therefore not supported as no bank statements to support the figure were made available for audit review. In addition, narrations were not given as to the source and the date of the transaction.
- An amount of Kshs.148,604,396 was debited in the cash book on 11 April 2014. The figure was explained as exchequer issue from the National Government. However, the amount was not confirmed with a bank statement as none was made available for audit verification.

- No bank reconciliation statements were prepared for the months of October 2013 to March 2014 making it difficult to confirm the correctness of the cash and bank balances.
- The cashbook reflected total receipts of Kshs.687,380,551 against total payments of Kshs.687,958,797 and hence overdrawing of the cashbook by Kshs.578,245.

3.2 Imprest Cash book

- The cash book bank opening balance as at 1 July 2013 was reflected as Kshs.66,659,569 instead of Kshs.64,677,469. The cash book was therefore overstated by Kshs.1,982,100. Further, the closing cash balance of Kshs.282,954 as at 30 June 2013 was not carried forward to the period under review and thus understating the cash book balance by the same amount. No board of survey report was made available to support the stated position as at that date.
- Cheques amounting to Kshs.4,300,000 were drawn as cash for office use. They were en-cashed by the cashier and entered on the credit side of the cash book (bank column) as payments. It was, however, observed that the contra entry was not completed as these cheques were not debited in the cash book (cash column). These cheques appeared in the bank statements as having been cashed. This anomaly understated the cash book balance (cash column) by Kshs.4,300,000. In addition, the amount withdrawn of Kshs.4,300,000 could not be accounted for as no cash book entries were made to show receipt and subsequent payments made.

The withdrawals were made as follows:

<u>Date</u>	<u>Cheque No.</u>	<u>Amount (Kshs)</u>
2/8/13	668	350,000
2/8/13	671	1,050,000
3/10/13	1050	900,000
18/10/13	1140	<u>2,000,000</u>
Total		<u>4,300,000</u>

- The cash book was not checked by either a responsible officer or an internal auditor and where it was checked, it was done by a pencil, a situation not fully explained by the head of internal audit.
- Bank reconciliation was done up to 30 September 2013. Therefore, it was not possible to confirm the correct position of cash and cash equivalent as at the time of audit. In addition, for the three months that the reconciliations had been done, the cash book balance could not agree with the balance indicated in the bank reconciliation statements. Examples as follows:

Month	Cash Book Balance Kshs	Bank Reconciliation Statements Balance Kshs.	Difference Kshs.
July	28,892,465	28,892,424	21
August	1,692,898	1,692,853	44
September	146,563,576	146,563,078	499

- A scrutiny of cheque counter foils and the cash book revealed that, cheque payments totaling Kshs.6,659,439 were cancelled but were not reversed in the cashbook hence understating the cash book balance. The details are as follows:

Cheque No.	Date	Amount (Kshs)
000949	27/9/14	737,328
000974	27/9/13	204,058
000990	2/10/13	6,000
001004	3/10/13	99,884.40
001158	30/10/13	950,000
001360	7/11/13	51,000
001361	7/11/13	3,612,000
001420	14/11/13	998,270
001446	28/11/13	9,000
		<u>6,659,440</u>

- Two cheques numbers 000887 and 000967 of 23 and 27 September 2013 for Kshs.21,940 and Kshs.74,000 respectively had not been posted to the cashbook. No explanation was made for the anomaly.
- Cheque no. 001141 payable to Family Bank for October 2013 salaries of Kshs.629,142 was posted to the cashbook as Kshs.29,142. The cashbook balance was therefore understated by Kshs.600,000.

3.3 Revenue Cashbook

- The opening balance of Kshs.212,702,969 on the receipt side was not supported by the bank statements. It was, therefore, not possible to confirm the correctness of the balance.
- The cashbook reflected a transfer of Kshs.660,196 on 28 January 2014 from Equity Bank Revenue account to Central Bank Kenya account. The amount was not reflected in the bank statement of Equity bank for the month of January 2014. However, the receipt was credited in the main revenue bank account held with Central Bank as per the availed bank statement for the month of January 2014.

- Kshs.16,384,686 was transferred to the imprest account on 6 September, 2013 but the same had not been recorded in the imprest cashbook. However, the same amount was credited in the imprest bank account No 01141527727500 held at Cooperative Bank, Chuka. No bank reconciliation statements for the revenue cashbook for the period under review were prepared.

Recommendations

- Cashbooks should be prepared and balanced on a daily basis and petty cash expenditure should be reflected in the cash book so as to have the actual cash book balance.
- Bank reconciliations should be carried out on a monthly basis so as to have reconciled cash book balances.
- The overdrawn cash book balance should be explained or accounted for.
- The cash withdrawal of Kshs.4,300,000 from the Current Account should be accounted for or recorded appropriately.
- All errors on posting of the cash books should be corrected and confirmed by a responsible officer.
- All unaccounted for payments should be recovered appropriately.

4.0 Procurement of Goods, Works and Services

4.1 Irregular Procurement of Motor Vehicles

The County Executive procured motor vehicles worth Kshs.41,881,755. The supplier was identified from the Ministry of Public Works supply Circular No R04/2011-2012- supply of motor vehicles of 29 November 2011 tender number SB/24/2011-2012. However, audit verifications revealed that no user requisition notes were raised to initiate the procurement contrary to Section 9(a) of the Public Procurement and Disposal Act, 2005. It was therefore not possible to confirm how the County Executive's decision of procuring one Toyota Prado and five Lansor NKMSSEN Fortuners was arrived at.

In addition, the following observations were noted;

4.1.1 Toyota Prado-GK B365D

Payments for the procurement of the motor vehicle were processed through payment voucher no 020 dated 8 May 2013 of Kshs.9,386,000 and payment voucher No.0198 dated 12 July 2013 of Kshs.1,846,800 all totaling Kshs.11,232,800. It was noted that the payments were made on the strength of proforma invoices. This was contrary to the requirement of Circular.NO.RO4/2011/2012-supply of motor vehicles which was used in the procurement of the vehicle. The circular required payments to be made within (30) days after receipt of invoice(s) and delivery of the goods. However, in this case the payments were made on proforma invoices.

The total cost of the vehicle including VAT was Kshs.10,850,000 as per the proforma invoice. In addition, Kshs.232,000 and Kshs.150,800 were added being cost of two flag masts and door visors and special locks and tint respectively, bringing the total cost to Kshs.11,232,800. However, the price of the vehicle was indicated as Kshs.10,190,832 in the tender number SB/24/2011-2012 which after adding the extras would have totaled 10,573,632. It was therefore not clear why the extra Kshs.659,168.00 was paid.

The vehicle was not availed for physical verification. However, it was explained that the motor vehicle was in an unspecified garage in Meru after it was involved in an accident along Embu Mwea road on 5 May 2014. This was confirmed through an internal memo written by legal advisor on 13 May 2014 to head of supplies, instructing for evaluation of damages. A mechanical inspection report from Ministry of Transport and Infrastructure Referenced MOTI/MS/VOL.6/47/031, recommended for repairs at a total cost of Kshs.504,020. No police abstract report confirming the accident was made available for audit.

- Ownership details were not confirmed as the log book was not made available for audit.

Recommendation

The County Executive should avail the vehicle logbook for audit verification.

The extra amount of Kshs.659,168 should be accounted for or recovered appropriately.

4.1.2 Land Cruiser Fortuners

The County Executive bought five Land Cruiser Fortuners at a cost of Kshs.6,129,791 each for the County Executive Members from Toyota Kenya.

The vehicles were delivered on 28 March 2014 by delivery note No:-20140327.

However, the vehicle was not inspected and confirmed by an inspection and Acceptance Committee to confirm delivery, specifications, quality and quantity of the motor vehicles contrary to section 17(3) of the Public Procurement and Disposal Regulations, 2006.

- Proforma invoice PF No.TKL/AM/TNC/10A dated 31 October 2013 was used to support the payment in contravention of ministerial circular R04/2011-2012 which states that payment should be made after delivery.

- To procure a vehicle of 1800cc and above, authority must be sought from Salaries and Remunerations Commission as per the commission's circular number SRC/TC/CGOVT/3/61 of 20 August 2013. No authority was sought from the commission to procure the five vehicles.

Recommendations

- Ensure reasons for any direct procurement are clearly stated and the same is adopted by the tender committee.
- For any goods supplied, the Inspection and Acceptance Committee should check if goods received are of the right quality and quantity and a certificate issued to that effect.
- The variance in price of the vehicles should be investigated and where there is no value for money, the amounts be recovered.
- Appropriate authority should be sought in case of purchase of higher than 1800cc rating as required.

4.2 Items not taken on charge

Examination of expenditure records revealed that goods worth Kshs.334,545 purchased by the Office of the Governor and Deputy Governor had not been recorded in the stores ledgers as required. Consequently, the delivery of the items could not be confirmed.

Recommendations

- The County Executive should ensure that stores records are maintained and updated regularly.
- The County Executive should ensure that strict adherence to the regulations is enforced in future.

4.3 Irregular Procurement of Goods and Services

Examination of expenditure records disclosed that Kshs.570,635 was incurred in sourcing for various goods, works and services without following the requirements of the Public Procurement and Disposal Act, 2005 and Regulations, 2006.

Recommendation

- No procurement of goods, services or works should be made without following the requirements of the Public Procurement and Disposal Act 2005 and Regulations, 2006.

4.4 Irregular Procurement of Services

A total of Kshs.3,645,960 was paid to a supplier for services rendered to the County Government as indicated;

P.V. NO	Particulars	Amount (Kshs)
1236 of 23/12/13	Israel Educational study tour on 10 to 19 January 2014	2,378,760
1515 of 27/2/2014		422,400
27/2/2014		422,400
27/2/2014		844,800
Total		<u>3,645,960</u>

The expenditure was in respect of County Devolution Educational study tour to Israel between 10 and 19 January 2014 by five (5) persons at a cost of Kshs.352,000 each. However, the following anomalies were noted:-

- There were no requisitions made to initiate the procurement process contrary to the regulations.
- There was no evidence of competitive sourcing of the service through open tender. It appears the supplier was sourced through direct procurement, contrary to regulations as the conditions for direct procurement were not met.
- There is no written contract between the procuring entity and supplier as required. The purpose for the payment was therefore not clear.
- While the original invoice indicated that the amount to be paid was for five (5) persons, the invoice was overwritten on to show six (6) persons. In addition, the original cost of Kshs.352,000 per person was also changed and other amounts indicated against each payee all totaling Kshs.2,378,760. It was not explained how the costs changed from Kshs.352,000 to the total amount of Kshs.2,378,760. The circumstances that led to the invoice to be over written with the name of the extra person were also not disclosed.
- No Local Service Order (LSO) was issued and it was therefore not clear how the services were ordered.
- No acknowledgement receipts were obtained from the payee upon receipt of the payment.

- No invitations appear to have been received from the country visited or a resolution of the County Executive sanctioning the trip made available for audit review thus raising questions as to the purpose of the trip.
- The actual places/persons/organizations visited were not disclosed hence the trip may have been private.
- Only payment voucher number 1236 for Kshs.2,378,760 was made available for audit and therefore expenditure of Kshs.1,267,200 was not accounted for.

Recommendations

- The provisions of the Public Procurement and Disposal Act, 2005 should always be adhered to in the procurement of goods, services and works.
- Any amounts paid without value for money should be recovered.
- Kshs.1,267,200 should be accounted for or recovered from the respective persons.

4.5 Irregular Procurement of Four Ambulances

The County Executive procured four (4) Ford Ranger 4x4 field ambulances – single stretcher for the Ministry of Medical Services at a cost of Kshs.16,200,000. The payment was made to a supplier vide payment voucher dated 31 December 2013. The vehicles were procured through the national government's motor vehicle supplies contract number S/69246. However, audit verification revealed the following unsatisfactory matters;

- The requisition from the Chief Officer Health referenced C.O/VEH/Vol.1/1 dated 19 December 2013 indicated that four (4) ambulances were needed and should be four wheel drive. It was not explained how the decision to procure the Ford type of ambulances was made.
- There were no tender committee minutes adopting the use of national government contract.
- The payment voucher was neither signed by the AIE holder nor authorized, and the IFMIS stamp not placed.
- The Local Purchase Order No. 2052602 was raised on 20 December 2013 against a proforma invoice dated 19 December 2013.

Recommendations

Management should ensure strict adherence to the Public Procurement and Disposal Act, 2005 and Regulations, 2006.

Any amounts paid without value for money should be recovered appropriately.

4.6 Purchase of Food Supplements

Three payments were made to three different companies on different dates in respect of food supplements supplied to the department of health as detailed below;

P.V No.	Date	Item	Amount (Kshs)
46	23/12/2013	Food supplements 6250 kg	750,000
1389	03/02/2014	200 food supplements	290,000
1226	03/01/2014	2000kg food supplements	300,000
Total			<u>1,340,000</u>

However, audit verification revealed the following:-

- No requisition orders had been raised by the users to initiate the procurement process.
- Although quotations were floated for each of the three procurements, it was not clear how the firms were identified as none had been prequalified.
- Further, there were no tender committee minutes adopting the procurement method i.e. use of quotations. No evaluation was done through the tender processing committees contrary to the regulations.
- No records were maintained to show receipt and issue of the food supplements and therefore delivery and utilization could not be confirmed.

Recommendations

- Management should account for the food supplements worth Kshs.1,340,000 or recover the entire amount appropriately.
- Ensure strict adherence to the procurement procedures and regulations in all future procurements.

4.7 Irregular Procurement Procedures

Examination of the expenditure records for the department of water services revealed that a supplier was paid Kshs.11,083,050 for supply of pipes for water projects. However,

an audit of the procurement procedures used to identify the supplier and the supporting documents attached to the payment voucher revealed the following irregularities:-

- The Tharaka Nithi County Executive Procurement Unit did not prequalify merchants or prepare a list of suppliers for the purpose of procurement and disposal of assets. Instead, it was verbally explained that the unit has been relying on the Tharaka Sub-County tenders for the period under review. Further, there were no official records to show how these tenders were adopted by the County Tender Committee. It was therefore not possible to authenticate the tender number TRK/NTH/11/04/2013-2014 that was used to award the contract for supply of pipes worth Kshs.11,083,050 to the supplier.
- Perusal of procurement records disclosed that tender number TRK/NTH/11/04/2013-2014 was from the prequalification list purportedly prepared from Tharaka Sub-County under unclear circumstances.
- The list of tenders produced for audit comprised of eighteen different suppliers of similar items who were prequalified for supply of the pipes and related items at the same unit price. It was therefore not clear on what basis the supplier was selected from the list of eighteen prequalified suppliers in the absence of quotations.
- Scrutiny of the payment vouchers also revealed that there was no inspection and acceptance committee reports for the supplies made and no records were maintained to show how the pipes were distributed.

Recommendations

- All procurement and identification of merchants should be done in accordance with the Public Procurement and Disposal Act, 2005 and Regulations, 2006 (Revised 2013).
- Ensure all procurements assure value for money in the transactions.
- Any payments without value for money should be recovered appropriately from the responsible parties.

4.8 Unaccounted for Grants

A payment of Kshs.200,000 in respect of a water project implementation was made vide payment voucher number 0956 dated 02 December 2013 and cheque number 1429. However, no records were made available for audit to show how the amount was spent.

Recommendation

Public funds should be fully accounted for and where value for money was not obtained, a recovery should be made from the responsible officers or parties.

4.9 Unspent Funds

The County Executive had an unspent balance of Kshs.61,592,200 under infrastructure development as at 30 June 2013. The funds were allocated by the Transitional Authority for the construction of offices and a County Assembly in the month of June 2013. However, the amount was not surrendered on 30 June 2013 to the County Exchequer Account as is required by Section 136 of the Public Finance Management Act, 2012.

Out of this amount, Kshs.56,308,356 was spent on procurement of building materials for construction of office block, payment of casual workers and procurement of office equipment and furniture. The funds were controlled through the manual vote book which reflected a balance of Kshs.5,283,844.00 in the two (2) sub-votes as follows:-

<u>Sub vote</u>	<u>Amount (Kshs)</u>
001-County Assembly	244,144
002-County Executive	<u>5,039,700</u>
Total	<u>5,283,844</u>

Although the balance was explained to have been exhausted, no documents were made available for audit to account for the amount.

Recommendation

Management should account for the expenditure in full or refund the unspent amount.

4.10 Direct Procurement of Goods

The County Executive procured goods worth Kshs.613,507 on cash basis contrary to the procurement procedures as detailed below:-

Date	Pv No	Nature of Expenditure	Amount (Kshs)	Remarks
01/08/2013	0150	Sundry building materials	131,270	The goods were not taken on charge in stores.
07/08/2013	0216	Sundry building materials	115,700	The goods were not taken on charge in stores.
20/09/2013	0464	Sundry building materials	103,430	The goods were not taken on charge in stores.

18/07/2013	0235	1,253 ft timber(5 by 2)	149,107	The goods were not taken on charge in stores.
24/07/2013	0190	Sundry building materials	114,000	Goods were taken on charge.
Total			<u>613,507</u>	

However, the items were not taken on charge in stores ledger and no requisition orders from user departments were produced for audit review to confirm the origin of the orders.

Recommendations

- The County Executive should ensure requisitions are made by the user departments and all goods and services received are taken on charge in store records before they are issued to the users.
- Recover any expenditure where there is no value for money in the transaction.

4.11 Supply of Goods and Services by Non Pre-qualified Suppliers

The County Executive procured assorted goods for the construction and equipping of the temporary offices for the County headquarters at Kathwana at a cost of Kshs.56,351,060. However, the following unsatisfactory matters were observed;

- Goods and services worth Kshs.10,244,210 were procured from firms which were not pre-qualified by the County Tender Committee. It was therefore not clear how the firms that supplied the items were identified.
- Quotations were used in sourcing the suppliers. The officers participating in the opening and evaluation of bids were not properly appointed as required by the Public Procurement and Disposal Act, 2005.
- No requisition orders were raised to initiate the procurement for the goods.
- Payment voucher No. 0382 dated 18 September 2013 for Kshs.260,000 was made to a supplier for supply of 100 metres of curtain material, 5 pieces of curtain rails and sewing charges. The payment was supported by LPO No. 1977331 dated 18 September 2013, Invoice No. 2999 of 23 September 2013 and Counter Receipt Voucher No. 6625005 of the same date. Although the curtains were taken on charge in the stores ledger, Quotation No. TNC/QT/12/2012/2013 dated 05 August 2013 was officially opened by one officer.
- Payment voucher No. 0398 of 24 September 2013 supported by Invoice No 124 of 23 September 2013 for Kshs.993,000 was made to another supplier on 18 September 2013 in respect of Intercom connection at the newly built Kathwana

office. However, out of the 30 ordinary Panasonic telephone sets installed, four (4) extensions worth Kshs.28,000 were faulty.

- Payment voucher No. 0169 and 0168 both dated 08 August 2013 for Kshs.76,850 and Kshs.239,000 respectively was made to an individual for the supply of 3400 feet of timber at a total cost of Kshs.209,000 and door frames costing Kshs.76,850. Tenders for the supply had been sold and seven potential suppliers bought the tender documents number TNC/02/2013/2014- supply and delivery of timber. Six out of the seven were pre-qualified. However, the winning individual tendered but got a score of 10% and was therefore disqualified. It is therefore not clear which criteria was used to award the contract to the disqualified candidate.

Recommendations

- All goods and services must be procured from the pre-qualified suppliers as required by Part III Paragraph 25(3) the Public Procurement and Disposal, Regulations, 2006.
- Recover the amount of Kshs.28,000 paid for the faulty telephone extensions or have the firm replace them.
- Payments made without value for money in the transactions should be recovered.

4.12 Poor workmanship in the Construction of Temporary offices at Kathwana

The County Executive spent Kshs.49,351,060 on the construction of county offices at Kathwana and purchase of office equipment and furniture. The construction work was done through labour based contract. The construction expenditure was based on cost estimates prepared by the then Ministry of Public Works. The estimated cost of the project was Kshs.16,853,095. However as at the time of audit Kshs.18,175,771 had been spent on the construction of the offices.

A site visit on 22 May 2014 revealed that the floor of the county offices was poorly done as evidenced by peeling off of some parts due to poor workmanship. There is no value for money as the management is putting temporary structures instead of permanent ones.

Recommendations

Management should ensure that the right procurement procedures are followed and works are paid for after inspection and certification as per specifications.

The cost of building the temporary offices should be revised in the light of the high cost already incurred.

4.13 Procurement of Civil Works

The County Executive had a budget of Kshs.575,400,000 for road works, learning and health Institutions, social amenities and other infrastructural works in the county. Out of this amount, the County had made payments totaling Kshs.136,504,996 towards several roads and other construction works between January and March 2014.

The County used restricted tendering method of procurement to procure the civil works. Tenders were advertised locally in the Sub-County office notice boards to the pre-qualified contractors within Tharaka Nithi County.

However, approval by the County Tender Committee not to use the list of pre-qualified contractors by KERRA and use of restrictive tendering method was not made available for audit verification.

Further, the following observations were noted:-

4.13.1 Spot Improvement of Katharaka-Chiakanyinga-Mumbuni (E765/UNCL) Road

The contract was awarded to a construction company at a contract price of Kshs.11,801,376. However, it was noted that the contractor did not complete the project and file essential documents including the performance bank guarantee. As at the time of audit, the contractor had been paid Kshs.7,016,454 for work certified.

4.13.2 Spot Improvement of Kituo-Muthitwa-Gakurungu (UNCL) Road

The contract was awarded to a contractor at a contract price of Kshs.9,980,988. Two payments of Kshs.2,174,130 and Kshs.2,173,555 had been made to the contractor in respect of certificates Nos. 1 and 2 respectively. However, the payment vouchers were not authorized by the authorized AIE holder or Chief Officer Works as a proof that the work had been done to his satisfaction.

4.13.3 Grading and Spot Improvement of Magumoni ward (various) Roads

The contract was awarded to a contractor at a contract price of Kshs.13,997,140. The order to commence work was issued by the supervisor on 16 December 2013 and was valid for 28 days which expired on 13 January 2014. However, the contract between the contractor and the client was signed on 27 February, 2014 implying that contract ought to have been cancelled. As at the time of audit, a sum of Kshs.7,183,410 had been paid in respect of certificate No.1.

4.13.4 Spot Improvement of Marimanti-Makuuni (E788) Roads

The contract was awarded to a contractor at a contract price of Kshs.9,990,500. However, the performance bond was not signed and a copy of bank security was not attached as part of the contract contrary to paragraphs 35.1, 35.2 and 35.3 of the Conditions of Bids and Instructions to bidders'. As at the time of audit, a sum of Kshs.4,871,884 had been paid.

4.13.5 Spot Improvement of Chogoria ward (various) Roads

The contract was awarded to a contractor at a contract price of Kshs.14,958,780.00 vide contract No TNCG/24/RDS/2013/2014. However, the performance bond was not signed and a copy of bank security was not attached as part of the contract contrary to paragraphs 35.1, 35.2 and 35.3 of the Conditions of Bids and Instructions to bidders'. Further, certificate of materials testing from the Ministry of Transport and Infrastructure Development, Embu Office was not provided despite a charge of Kshs.150,000.00 as per the BQ's page 1 and a payment made through certificate No 1. As at the time of audit, a sum of Kshs.5,602,201.00 had been paid.

4.13.6 Spot Improvement of Makutano-Kamacabi-Kathangacini Roads

The contract was awarded to a contractor at a contract price of Kshs.9,990,616.00 vide contract No TNCG/17/RDS/2013/2014. However, the performance bond was not signed and a copy of bank security was not attached as part of the contract contrary to paragraphs 35.1, 35.2 and 35.3 of the Conditions of Bids and Instructions to bidders'.

Further, the certificate of materials testing from the Ministry of Transport and Infrastructure Development, Embu Office was not provided despite a charge of Kshs.150,000.00 as per the BQ's page 1 and a payment made vide certificate No 1. As at the time of audit, a sum of Kshs.8,530,208.30 had been paid.

Physical verification of the project done on 15 May 2014 revealed the road works were progressing well.

4.13.7 Spot Improvement of Mwimbi ward (various) Roads

The contract was awarded to a contractor at a contract price of Kshs.9,954,000.00 vide contract No TNCG/27/RDS/2013/2014. However, it was observed that Form of Written Power of Attorney was not fully filled, certificate of bidders visit to site was not fully filled, and work methodology was not filled in the contract document. The contract document did not disclose the commencement date and completion date contrary to sub clause 41.1 and 43.1 of the conditions of bid and instructions to bidders'. Performance bond was not signed and a copy of bank security was not attached as part of the contract contrary to paragraphs 35.1, 35.2 and 35.3 of the Conditions of Bids and Instructions to bidders'. As at the time of audit, a sum of Kshs.7,227,761.00 had been paid.

Physical verification of the project done on 15 May 2014 revealed that the road works were progressing well.

Recommendations

- The management should ensure that the Public Procurement and Disposal Act, 2005 and Regulations, 2006 are strictly adhered to in all future procurement of works.
- Contract agreements should be well executed to avoid loss to the County Government.
- The expenditure of Kshs.300,000 for materials testing should be accounted for or recovered from the responsible parties.

4.14 Unaccounted for funds paid to Kamukondoni Dairy Farmers

The approved budget showed a budgeted figure of Kshs.5,000,000 in respect of a milk processing cooling plant at Ganga ward. The manual vote book showed that as at 30 June 2014 this amount had not been utilized.

However, audit verification of the payment vouchers paid between April and June 2014 revealed a payment voucher authorized on 17 June 2014 for Kshs.2,657,550 payable to Kamukondoni Dairy Farmers Association. The payment was in respect of facilitation for installation of milk processing cooler in Ganga Ward. Supporting the payment was un-referenced letter from Ganga Member of County Assembly, dated 17 June 2014 and addressed to the Chief finance officer requesting for the payment of Kshs.2,687,550. A bill of quantities was also attached which showed that the works were to involve the construction of a building for cooler, electrification system, water installation and a perimeter fence all at an estimated total cost of Kshs.5,187,550.00. The payment was processed in the IFMIS on 27 June 2014. Further, audit verification revealed the following:

- The payment voucher did not indicate the vote, head, sub head and item from which the funds were charged. In addition the voucher did not have an identification number and cash book voucher number. It is therefore not known how the payment voucher was processed for payment while it was still incomplete. Further, the manual vote book maintained did not indicate this entry.
- The requisition for the implementation of the project and the subsequent approval if any has not been made available for audit review. Further, the payee appears to be a private entity, it is therefore not supported by any documentary evidence why a private institution was being funded using the county government funds.
- It was not known in what capacity the MCA was requesting for the funds as the role of Members of County Assembly is to provide an oversight role of the executive and not to implement County Projects.
- Given that the bill of quantity totals were estimated at Kshs.5,187,550, it was not explained, what portion of the bill of quantities was to be implemented with the availed funds of Kshs.2,657,550 and how the balance is to be financed.
- The account to which the Kshs.2,657,550 were deposited was not disclosed neither have the bank statements been made available for audit verification. The expenditure records detailing how the funds were utilized have not been made available for review. It is, therefore, not possible to tell whether the project was actually implemented or not.
- Considering that the payment was processed in IFMIS just three days to the closure of the financial year, it may not have been practical to implement the project in such short time. It is, therefore, not explained the state of the outstanding funds as at 30 June 2014.

- There were no set guidelines by the County Treasury on how to utilize such project funds which are switched to the project for implementation. These would include the banking issues, book keeping and use of professionals in implementation of projects.
- It was not explained why the County Treasury transferred the project funds instead of the procurement process being initiated by the procurement department and payments made to the contractors by the County Treasury.

Recommendations

- Management should adhere to the provisions of the Public Finance Management Act, 2012 and the Government Financial Regulations and Procedures.
- The County Executive should account for the Kshs.2,657,550 paid to Kamukondoni Dairy Farmers Association.
- The role of Members of County Assembly in project implementation should be oversight and not execution.

4.15 Doubtful Procurement of Medical Drugs

The following payments were made to various firms in respect of assorted drugs allegedly supplied to the department of Health.

Payment V. & Date	Details	Amount (Kshs)
2609 of 24/06/14	Assorted Drugs	1,998,000
2585 of 23/06/14	Assorted Medical Drugs	3,429,000
2584 of 23/06/14	Assorted Medical Drugs	1,571,000
2410 of 10/06/14	Assorted Medical Drugs	1,776,400
Total		<u>8,774,400</u>

However, audit verification revealed the following:

- No requisition notes were made available for audit to justify the bulk procurement of medical drugs.
- Quotation number Q/15/2013-2014 dated 24 February 2014 had been floated and five bidders responded. The quotations were opened on 4 March 2014. Minutes for the tender opening have not been made available for audit review. Tender awards were done on 14 March 2014. The minutes thereof indicated that the bidders were awarded the tenders based on the items each had quoted the lowest. The analysis to show the basis of this evaluation was not made available for audit verification.

- It was not justified why quotations were raised for the procurement instead of open tender as the value of the procurement of the medical drugs was above the set threshold required for request of quotations which is set at maximum of Kshs.1,500,000. The total for the tender in question was Kshs.8,774,400 which was above the set threshold.
- The store records maintained at the Chuka Level Five hospital, and which was the central point at which the drugs were allegedly received, showed that the medical drugs were recorded in the respective ledger cards. However, there was no record showing how the drugs were subsequently disposed allegedly to different medical units within the County. It was, therefore, not possible to verify that the drugs were indeed received at the intended units.
- Information indicated on the face of the payment voucher indicated that the funds were charged from the account 881-0385-2110112, basic salaries. This, therefore, indicates a reallocation of funds meant for basic salaries into paying for drugs without prior approval.

Recommendations

- The management should in all respects follow the Public Procurement and Disposal Regulations 2013 and the Government Financial Regulations and Procedures.
- The County Executive should account for the expenditure of Kshs.8,774,400 on medical drugs or confirm the distribution of the drugs. In the contrary the amount should be recovered.
- Obtain the relevant authority to reallocate funds.

4.16 Irregular Procurement of Medical Equipment

The following two payments were made to two different firms in respect of assorted medical equipment allegedly supplied to the Department of Health.

PV. & Date	Details	Amount
2586 Of 23/06/14	Assorted Equipment	4,490,000
2409 of 10/06/14	Assorted equipment	2,124,750
Total		<u>6,614,750</u>

It was alleged that one supplier supplied items like mattresses, bed side lockers, pillows, linen, theater light and microprocessor patient suspension. Another supplier supplied baby cots, suction machines, episiotomy kit, IUCD sets and resusciturer.

However, audit verification revealed the following:

- No requisition notes from the user departments were made available for audit to justify the procurement of the assorted items.
- Quotation number Q/40/2013-2014 dated 12 May 2014 and Q/25/2013-2014 of 27 February 2014 respectively had been floated for the two procurements. Quotations numbered Q/40/2013-2014 were opened on 20 May 2014 and four bidders had responded from which lowest bidder was awarded. The quotation number Q/25/2013-2014 was opened on 6 March 2014 and three bidders had responded from which the lowest bidder was awarded. Minutes for the tender opening have not been made available for audit.
- It was not justified why quotations were raised for the procurement instead of open tender as the value of the procurement of the medical equipments was above the set threshold required for request of quotations which is set at maximum of Kshs.1,500,000. The total for the tender in question was Kshs.6, 614,750 which was above the set threshold.
- The store records maintained at the Chuka Level Five hospital, and which was the central point at which the items were allegedly received, showed that the items were recorded in the respective ledger cards. However, there was no record showing how these were subsequently issued allegedly to different medical units within the County. It was, therefore, not possible to verify that the items were indeed received at the intended units.
- Information on the face of the payment voucher indicated that the funds were charged from the account 881-0385-2110112, basic salaries. This therefore indicates a reallocation of funds meant for basic salaries into paying for drugs without prior approval.

Recommendations

- The management should in all respects follow the Public Procurement and Disposal Regulations, 2013 and the Government Financial Regulations and Procedures.
- The County Executive should seek appropriate authority to reallocate funds.
- The County Executive should account for the medical equipment worth Kshs.6,614,750 or recover the amount.

4.17 Doubtful Procurements of Plumbing Materials

The budgeted expenditure for this vote in the manual book is an amount of Kshs.142,700,000. During the period under review, the total expenditure incurred was Kshs.113,450,808. Out of this amount, an expenditure of Kshs.9,317,800 was expended

on procuring various classes of water fittings including UPVC pipes. The expenditure is as summarized here below;

Date	PV. No	Purpose	Amount Kshs.
30/05/2014	2137	UPC Pipes	5,146,300
30/06/2014	2671	UPC Pipes	4,171,500
Total			<u>9,317,800</u>

However, audit verification of the store records revealed that the items were not taken on charge in the stores ledger cards though the counter receipt voucher (S13) were raised as proof of receipt. There were no Counter Issue vouchers (S11) to show the point of disposal. It was, therefore, not possible to tell how the items were disposed.

Recommendations

- The management of Tharaka Nithi County to ensure accountability of items procured to justify the funds used.
- The County Executive should always maintain appropriate stores records accurately and updated.

5.0 Imprest and Advances

5.1 Outstanding Imprest

It was observed that imprests are controlled through an imprest register maintained by an imprest officer. However, the purposes for the issued imprests are not being disclosed.

The amount of imprest outstanding as at 30 June 2014 totaled Kshs.40,601,813.00 as indicated by the imprest schedule made available for audit. These imprests have remained outstanding for long as some were issued in 2013. No measures have been put in place to have the imprests surrendered.

An amount of imprest of Kshs.1, 563,200 issued to an officer is reflected as Kshs.53,430 on the schedule thus causing unexplained variance of Kshs.1,509,770. Further, it was noted that the financial regulations were not followed as imprests were awarded arbitrarily by issuing more than one imprests to a single officer. The officers were issued with imprests without surrendering the earlier ones.

An officer who had been issued imprest of Kshs.785,000 had only surrendered Kshs.135,000 leaving a balance of Kshs.650, 000. This officer is no longer working with the county government and resigned without surrendering the outstanding imprest. It was not explained how the officer was released having not cleared the said imprest.

Recommendations

- Temporary imprest should be accounted for or surrendered within 48 hours after returning to duty station. In the event of the imprest holder failing to account for or surrender the imprest on the due date, the accounting officer should recover the amount in full from the defaulting officer's salary.
- The A.I.E holder should ensure that no subsequent imprest is issued to any officer before the previous imprest is surrendered or recovered in full.
- If imprest is to be recovered from any officer by installments, then the accounting officer must personally authorize such recovery because it is no longer an imprest but unauthorized advance from Government funds.
- The imprest held by ex-staff should be recovered appropriately.

5.2 Management of Standing Imprest

The Head of Accounting Unit has been operating on an office standing Imprest of between Kshs.2,000,000 and Kshs.10,000,000. During the period 31 December 2013 and 31 March 2014, a total of Kshs.38,000,000 had been issued as cash for office use.

There were no set guidelines on the amounts to be issued and the frequency at which they were to be issued. Further, the set policies on the limits and the circumstances under which cash payments may be made by the cashier from the standing imprest were not forwarded.

Recommendations

The County management should come up with policies on cash withdrawals for office standing imprests and under which circumstances cash payments are to be made.

The County Executive should comply with the financial regulations on cash management.

6.0 Revenue Records and Management

6.1 Weak controls in revenue collection

Examination of revenue records maintained at the County Treasury disclosed the following unsatisfactory matters:-

- The revenue cashier for Chuka Igamba Ngombe Sub-County was responsible for receipt of cash, posting of miscellaneous receipts in the cashbook, preparation of collection control sheets as well as banking. It was also noted that receipt cashbooks in the sub-counties had not been checked regularly by a senior official or the internal audit to confirm the accuracy of the revenue recording.
- Maara Sub-County had not prepared monthly revenue reports for the months of July to December 2013.

- The revenue cashier for Chuka Igamba Ng’ombe operated from a general office and kept the revenue collected in a cabinet, with no safe. The office was not also secured with a steel or metal burglar proof door.
- Examination of the Counter Receipt Book Register (CRBR) disclosed that only accountable documents procured by the County Executive from inception were recorded.
- The CRBR excluded the books formerly held by the defunct Local Authorities in the County, although the Sub Counties (former local authorities) continued to use these books through their counter receipt books. The County Executive ought to have taken stock of all accountable books in the entire Sub-Counties and take them on charge in the master counter receipt book register and then reissue to the respective Sub - Counties for use.

Recommendations

- The management should institute control mechanism to ensure that there is proper accountability of revenue including segregation of duties.
- The revenue officer should ensure that all accountable documents for the defunct Local Authorities and the County Government are taken on charge and reconciled in the counter receipt book register (CRB).
- The internal audit should carry out a comprehensive audit of all the accountable documents held by the defunct Local Authorities.
- All revenue collected using the unrecorded receipt books should be accounted for by the officers handling them.

6.2 Under banking of revenue

During the period 1 July 2013 to 31 March 2014, three sub-counties had collected a total of Kshs.29,556,206. However, a comparison of these collections to the actual banking made to the Tharaka Nithi Revenue Account revealed that the revenue had been under banked by Kshs.2,125,947. The details of the under banking are as follows:

Sub-county	Period	Collections (Kshs)	Banking (Kshs)	Under banking (Kshs)
Chuka Urban Sub-county	Various dates between July 2013-March 2014	11,867,901	11,586,969	280,932
Maara sub-county	July 2013-March 2014	7,166,585	6,465,590	700,995

Chuka Igamba Ng'ombe	July 2013- March 2014	10,521,720	9,377,700	1,144,020
Total		<u>29,556,206</u>	<u>27,430,259</u>	<u>2,125,947</u>

A cash survey exercise carried out in the three Sub-Counties revealed that imprests totaling Kshs.749,666 had irregularly been issued from the collected revenue. Some of the imprests had not been approved by the Chief Finance Officer or authorized by the Accountant as required. The issuance of imprests from revenue was contrary to Section 6.8.5 of the Government Financial Regulations and Procedures which prohibits the use of revenue before banking.

Recommendations

- The unaccounted for and unbanked revenue of Kshs.2,125,947 should be banked and accounted for.
- Further, revenue accountability controls should be strengthened by the County Executive.
- Spending of revenue at source should be stopped immediately.
- The County Executive should comply with the Public Financial Management Act, 202 as regards revenue collection, recording, custody and utilization.

6.3 Uncollected revenue

Revenue amounting to Kshs.27,188,236 was outstanding as at 30 June 2014. The details of these arrears are as follows:

Sub-county	Type of revenue	Amount (Kshs)
Tharaka North	Plot rent	4,254,127
Tharaka South	Plot rent	5,050,431
Maara	Plot rent	3,081,824
Maara	Market stalls	374,293
Chogoria Urban	plot rent	737,891
Tharaka North	Market Stalls	701,939
Chuka Igamba Ngombe	Plot rent	3,138,157
Chuka Igamba Ngombe	Rent arrears	1,669,089
Chuka Urban		7,166,763

Marimanti Urban

1,013,722

Total

27,188,236

It was further noted that these arrears were not disclosed in the notes to the financial statements.

Recommendations

- The County Executive should ensure that all revenue due is collected.
- The huge revenue variances between expected and collected should be explained appropriately.

6.4 Unaccounted for receipt books and expected revenue

Examination of the CRB for Chuka Igamba Ng'ombe and Maara Sub - Counties revealed that, revenue totaling Kshs.220,000 and Kshs.951,440 respectively could not be accounted for as some receipt books from revenue collectors had not been received in the office by the time of audit on 19 April 2014. The books were issued on various dates between 7 December 2013 and 25 March 2014.

No collection control sheets were maintained to confirm whether the books had been surrendered back and the respective revenue accounted for appropriately. The total revenue not accounted for could be more as there were some other revenue collection receipt books which did not have a standard rate of collection hence it was not possible to confirm the expected collection per book. Some of the books were issued to the collectors' way back in the year 2004.

Recommendations

- The County Treasury should take appropriate measures to establish the status of these books and have any revenue collected accounted for appropriately.
- Any officers involved in the collection and non-disclosure of the revenue should be disciplined appropriately.

6.5 Under/over cast of Miscellaneous Receipts in the Revenue cashbook

Some miscellaneous receipts for Igamba Ng'ombe Sub-county were incorrectly posted in the cashbook as summarized below resulting to unaccounted for revenue of Kshs.111,700.00.

Date	Miscellaneous Receipt No	Amount Miscellaneous Receipt	in	Amount posted in cashbook	Variance
		Kshs		Kshs	Kshs
26/07/2013	1080	26,705		24,405	2,300

02/08/2013	1095	39,795	37,795	2,000
03/09/2013	1161	56,410	61,910	(5,500)
17/09/2013	1196	37,400	41,600	(4,200)
18/09/2013	1197	25,170	23,170	2,000
07/10/2013	1670	156,780	139,280	17,500
04/04/2014	2429	157,290	59,690	97,600
07/11/2013	1722	13,025	12,025	<u>1,000</u>
			Total	<u>111,700</u>

No explanation was given for incorrect posting in the cash book.

Recommendations

- Regular examination of the revenue records and the cashbook postings should be instituted to ensure correct posting to avoid loss of revenue.
- The variance of Kshs.111,700 should be investigated and if any loss is confirmed be recovered from the responsible officers.

6.6 Cost Sharing Revenue - Chuka Level 5 Hospital

Verification of cost sharing records maintained at Chuka Level Five hospital revealed that the cost sharing revenue continued being surrendered at the district treasury for the period 1 July 2013 through to 11 February 2014. For the period between 12 February 2014 through to 30 June 2014, the cost sharing account was to be operated by the County Treasury. This was in the strength of an earlier circular from the Chief Officer - Health referenced General C. FIN/Vol.1/4 dated 22/01/2014. The signatories to the account before 12 February 2014 were withdrawn. The new signatories were appointed as the county accountant, medical superintendent, and the hospital administrative officer. As at 11 February 2014, the total cost sharing revenue collected and surrendered at the district treasury was Kshs.20,746,414. The cash book bank balance was Kshs.9,339,448 while the bank statement balance was Kshs.12,454,247. Hence, Kshs.11,406,965.40 had been utilized. An analysis of the bank statements showed that the total cost sharing revenue banked during the financial year was Kshs.38,584,574.

Audit verification revealed the following;

- Total revenue collected during the 2013-2014 financial year was Kshs.38,584,574. This revenue was not deposited in the county revenue fund contrary to the law.
- The County Treasury has not come up with policy document on management of the cost sharing revenue.

- The cost sharing revenue was not budgeted for during the 2013-2014 budget preparation.
- The total expenditure incurred as at 30 June 2014 and charged from the cost sharing fund was Kshs.40,985,535. This was as per the expenditure summary for the year. However, this expenditure has neither been controlled at the County Treasury books nor was it included in the approved budget for the year. Instead the expenditure was being budgeted for by the hospital management board and AIEs issued by the Chief Officer Health to the fund without the resulting budget.

Recommendations

The management should ensure all revenue raised/ received by or on behalf of the County Government is paid into the County Revenue Fund.

The County Treasury should reconcile the amount budgeted, collected and utilized and any variance be accounted for appropriately.

7.0 Emergency Fund

7.1 Irregularities in the Operationalization of the Emergency Fund

The County Executive budgeted for an emergency fund that was allocated Kshs.14 Million through the approved budget. Audit verification revealed that Kshs.8,806,716 had been spent and Kshs.4,468,340 had been committed in the vote book.

However, the following observations were noted;

- The emergency fund was not properly created as required by Section 110(1) of the Public Finance Management Act, 2012, which requires the County Executive Committee to create the Fund with the approval of the County Assembly. Instead, only a budget allocation on an item named County Emergency Fund was created. No approval from the County Assembly was sought.
- The County Assembly has not created the operationalization framework and criteria for administering the Fund contrary to the regulations.
- No bank account was operated separately for the Fund.
- No approval was sought from the County Assembly before the expenditures were incurred from the Emergency Fund.
- No report had been made to the Auditor-General in respect of the payments made out of the Fund.
- Out of the Kshs.8,806,716 spent, Kshs.2,053,540 was spent in procuring assorted medical equipment while a total of Kshs.4,232,700 was used in procuring assorted emergency drugs for the Department of Health. Audit verification revealed that the

medical equipment had been supplied but were not in use at the Chuka District Hospital. This negates the nature of emergency on which basis the equipment were procured. Further, the drugs procured were all issued to St Orsola Catholic Mission Hospital- which is a private institution. Further, other than the requisition made by the Chief Officer Health requesting for the drugs, no requisition from the hospital was made to support the expenditure.

- Further, out of the total expenditure of Kshs.8,806,716, only payment vouchers for expenditure totaling Kshs.6,530,240 were produced for audit. An expenditure of Kshs.2,276,476.00 have not been availed for audit verification.

Recommendations

- The County Government should take the appropriate measures to properly the Constitute Emergency Fund.
- A separate bank account should be opened for the emergency fund.
- The amount of Kshs.2,276,476.00 should be accounted for appropriately.
- Appropriate procurement procedures should be used in purchase of goods and services out of the emergency funds.
- The medical equipment procured and being kept at the Chuka District Hospital should be put to use immediately for the benefit of the County residents.

8.0 Human Resource Management

8.1 Organization Structure

The County Executive lacked an approved organization structure that would show various offices, holders of those offices and their technical and support staff. The lines of authority were therefore not clearly defined.

Recommendation

The County Executive Management should develop and use an approved organizational structure.

8.2 Human Resource Department

The County Executive had not created a human resource department as at June 2014 and therefore lacked qualified staff to undertake the human resource management roles. Instead it had only a payroll office which was mainly tasked with the responsibility of running the payroll and maintenance of staff personal files. The files were kept in a cabinet

and were easily accessible by anyone and hence not secure. Further, no human resource policy was in place to guide the various human resource functions.

Recommendations

- The County Government Executive should create and appropriately staff the human resource function.
- The County Executive should develop and implement appropriate human resources policies and procedures including schemes of service for staff.

8.3 Recruitment of Staff

8.3.1 The County Public Service Board

Advertisement for the recruitment of the County Public Service Board (CPSB) was placed in a local daily on 11 April 2013. The effective date for the employment of the chairman, secretary and the members was between 31 July 2013 and 07 August 2013. However, the following audit observations were made:

- Minutes of the committee, if any that did the opening and short listing of prospective candidates were not made available for audit review.
- The score sheets from the interviewing panel were not made available for audit verification.
- The list forwarded to the County Assembly and the approval thereof was not made available for audit.
- Five members were appointed to the board instead of the maximum four as required by the County Government Act, 2012.
- A review of all the files revealed that the testimonials of the appointed officials were not authenticated as true copies of the originals. In addition, the authenticity of the testimonials had not been confirmed through the relevant bodies and institutions.
- The file for one member did not have the application letter and the relevant testimonials.
- Job applications for two members were not supported by relevant letters from their past employers. It was therefore not possible to confirm the experiences that each one had.

Recommendations

- The law and recruitment procedures should be followed in appointing the Public Service Board members.
- The County Executive should comply with the law on the number of members to be appointed to the County public Service Board.

8.3.2 County Chief Officers

The County Executive has a total of nine Chief Officers. The advertisement for the posts was placed in the Daily Nation newspaper on 5 September 2013 and the Chief Officers were employed between 09 and 16 December 2013. However, the minutes of the short listing committee and interviewing panel were not made available for audit. It was therefore not possible to confirm that the recruitment process was free and fair. A review of the individual files of the appointed persons revealed the following:-

- The testimonials in the files had not been authenticated as true copies of the originals. Further, the same documents had not been confirmed with the relevant bodies and institutions.
- The job application letter for the Chief Officer Physical Planning, Lands, Energy and ICT, indicated that the officer had applied for the post of Chief Officer - Roads, Transport, Public Works and Legal Affairs. It was therefore not clear how the applicant was appointed for the current post. There was no documentation to show that the officer had experience in physical planning, energy and ICT.
- The job application for the Chief Officer Roads, Transport and Public Works did not have the relevant testimonials attached. Further, the stated experience in the Curriculum Vitae was not supported by the recommendation letters from the previous employers. The letter of offer for the employment was also not in the file.
- The Chief Officer Agriculture, Livestock and Water Services had not signed the job application letter.
- The Chief Officers' Finance and Economic Planning, and Tourism, Environment and Natural Resources did not attach any recommendation letters from the previous employer.

Recommendations

- Appointment of Chief Officers should be done within the law and recruitment procedures.
- The County Executive should ensure the missing information is obtained from the responsible officers.

8.3.3 County Staff not in the March 2014 Payroll

Examination of staff records revealed that 189 officers were employed between January and March 2014. However, audit verification disclosed the following unsatisfactory matters:

- No documentary evidence was made available for audit to confirm how the County Executive decided to recruit the 189 employees.
- The vacancies were not advertised hence, it was not clear how the applicants' majority of whom are secondary school leavers learnt of the vacancies and subsequently made applications.
- Except for the finance officers who were to be appointed on permanent and pensionable terms after successful completion of a three month probation period, all the other employees were employed on contract terms. However, the length of the contract term was not specified.
- The salaries and allowances payable to these employees were not supported by any circular from the Salaries and Remuneration Commission. It was therefore not clear how the salaries were determined for the respective posts.
- The budget for 2013/2014 had no provisions for the appointment of new staff.
- A review of 29 files for clerical officers, 23 files for support staff and 6 for finance officers revealed incompleteness of some files. Some files lacked testimonials and those that had the testimonials were not authenticated as true copies of the originals. The testimonials were also not confirmed with the relevant bodies/institutions. Most of the files did not have crucial identification documents like identity card and birth certificates. Others also lacked the application letters and acceptance letters. Majority of the employees were secondary school leavers who lacked any relevant experience

Recommendations

- Appointment terms and letters should be clear and specific to each position.
- Staff salaries should always be determined in consultation with the Salaries and Remuneration Commission.
- The County Executive should account for the recruitment of the 189 staff and ensure compliance with the existing recruitment procedures and legislation.

8.4 Payroll Processing

8.4.1 PAYE Deductions

Examination of the payroll revealed that statutory deductions of some employees were under charged and no clear explanation was given. The total PAYE undercharged was Kshs.1,186,661 for the months of July and December 2013, and January to February 2014 as shown below;

<u>Month/Year</u>	<u>Amount (Kshs)</u>
July 2013	312,485
December 2013	313,060
January 2014	198,310
February 2014	<u>362,806</u>
	<u>1,186,661</u>

Recommendation

- All PAYE underpaid of Kshs.1,186,661 to the National Government should be paid appropriately.

8.4.2 Discrepancies in the Payroll

Examination of the payroll disclosed the following discrepancies:-

- The number of employees recorded in the staff register in the IPPD differed with the list of staff data processed for payment of the monthly salaries and sent to the banks. The staff register is meant to show all data concerning all the employees while the bank list schedule shows the final processed net salaries submitted to the banks for payments. The number of employees in the staff register is expected to equal the number of employees in the schedule sent to the bank. The discrepancies noted are as analyzed;

	July 2013	Aug 2013	Sept 2013	Oct 2013	Nov 2013	Dec 2013	Jan 2014	Feb 2014	April 2014
Bank List Schedule	192	191	215	216	216	216	1257	1282	1187
Staff Register	194	194	217	217	217	217	1264	1292	1353
Variance	-2	-3	-2	-1	-1	-1	-7	-10	-166

- The variance major differences were noted after the staff from the devolved departments was absorbed in the payroll. The explanation given by the payroll officer was that the payroll from the devolved departments had not been cleansed hence having some officers who were not meant to be under Tharaka Nithi County.

- The audit further sought to find out why the list sent to the bank for the month of April reduced from 1282 in February 2014 to 1187 while the staff register showed an increase in staff number. It was noted that in April 2014, 167 employees were not paid as they were not meant to be employees under the County. However, 152 of the 167 had been paid salaries in February 2014 which amounted to a total gross pay of Kshs.10,996,630.85. In January 2014, 151 of the 167 had been paid a gross pay of Kshs.11,020,250. It was, therefore, not clear how the expenditure was incurred as it was not budgeted for. Again, there was the likelihood of the officers having been paid by other stations leading to double pay in the months of January and February 2014.

Recommendations

- The County Executive should account for or recover the Kshs.22,016,880 paid in January and February 2014 to non-County staff.
- The Payroll Register and bank list should be regularly checked by a responsible officer to ensure that they are in agreement.

8.4.3 Non remittance of Payroll Deductions

Examination of the payroll further disclosed the following unsatisfactory matters:-

- Statutory deductions from employees pay were not being submitted to the intended beneficiaries. Deductions in respect of Kenya Medical Association that had been deducted from the members pay for the months of January to April 2014 had not been remitted to the association. Further, the County Executive was not remitting the employer contributions in respect of 96 members of LAP-Fund and 67 members of LAP-Trust since the formation of the County Government. The employee contributions have however been remitted accordingly.
- Statutory deductions amounting to Kshs.832.653 deducted in the month February 2014 payroll had not been remitted to the various institutions as indicated below;

<u>Organisation</u>	<u>February 2014</u>
Muguni SACCO	606,213
KMA	500,836
Shirika Sacco	200,559
Harambee Sacco	277,099
Afya Sacco	5,058,535
Hazina Sacco	69,075
Ardhi Sacco	192,126
Ukulima Sacco	1,800,625

Elimu Sacco	1,345
Jamii Sacco	67,034
Asili Sacco	5,195
Ufundi Sacco	11,660
Sheria Sacco	1,195
Mwalimu Sacco	72,167
Embu Teachers Housing Sacco	19,861
Transcom Sacco	17,980
Muhigia Teachers Sacco	9,867
Nyeri Teachers Sacco	8,590
Winas Sacco	2,196
Mwito Sacco	43053
Solution Sacco	1,395
Tharakanithi Teachers	832,652
Meru South Farmers Sacco	35,480
Social Welfare Associations	<u>592,790</u>
Total	<u><u>832,653</u></u>

Recommendation

Remit all unremitted statutory deductions to avoid penalties and interest charges.

8.4.4 Ethnic Balancing

An ethnic analysis of all the employees working directly under the County Executive was carried out from the payrolls of the months of June, July and December 2013 and March 2014. The results of the analysis are summarized hereunder.

	June 2013	July 2013	December 2013	March 2014	Average
Embu	1(0.6%)	1(0.56%)	1(0.54%)	1(0.49%)	1
Kamba	1(0.6%)	1(0.56%)	1(0.54%)	1(0.49%)	1
Kikuyu	8(5%)	8(4.5%)	6(3.2%)	7(3.41%)	7
Luo	3(1.9%)	4(2.3%)	4(2.2%)	4(1.95%)	4
Meru	144(91%)	151(85.8%)	163(87.6%)	175(85.36%)	158
Swahili	1(0.6%)	1(0.56%)	1(0.54%)	1(0.49%)	1

Tharaka	9(5.1%)	9(4.84%)	15(7.32%)	8
Turkana	<u>1(0.56%)</u>	<u>1(0.54%)</u>	<u>1(0.49%)</u>	<u>1</u>
	<u>158</u>	<u>176</u>	<u>186</u>	<u>181</u>

Recommendation

- The County Executive should implement the regional balancing in its recruitment of staff.

8.4.5 One Third Pay Rule

Examination of the payroll for the month of January 2014 disclosed that eight employees were receiving net salaries which were less than one third of their basic pay contrary to existing regulations.

Recommendation

Ensure the one third pay rule is adhered to all the time and avoid pecuniary embarrassment of staff.

9.0 Expenditure

9.1 Fuel, Oil and Lubricants

The vote book under the fuel vote revealed that the County had budgeted for Kshs.32,973,411.00 and within the financial year spent Kshs.17,115,447.22 thus leaving unspent balance of Kshs.15,857,963.78. The verification of the expenditure for three months from April to June, 2014 revealed uncontrolled motor vehicle fuel usage as follows:

Date	PV.No.	Type	Amount Kshs.
08/05/2014	2078	Diesel	1,500,000
24/06/2014	2598	Fuel	1,500,000
30/06/2014	2693	Fuel	1,500,000
18/06/2014	2681	Fuel	299,976
11/06/2014	0398	Fuel	<u>48,875</u>
Total			<u>4,848,851</u>

Fuel of the above stated value had not been taken on charge in the fuel register. The register is not updated and fuel entries were made up to April, 2014. Further, there were no detailed orders or motor vehicle work tickets to proof that the fuel was consumed by

the county motor vehicles. There were no signed deliveries to show that the fuel was delivered.

Recommendations

Management should adhere to the provisions of the Government Financial Regulations and Procedures as regards ordering and consumption of fuel, oil and lubricants.

The County Executive should account in full for the fuel or recover the amount paid appropriately.

9.2 Training Expenses

A payment of Kshs.582,000.00 was made vide voucher No. 2289 of 4 June 14 to a hotel in respect of full board accommodation for five days (19-23 May 2014) and LCD hire for two days for health officers. The expenditure was incurred vide an L.S.O. no. 0877891 of 9 May 2014, invoice no. 0280 of 23 May 2014.

The service was offered vide quotation no. Tharaka Nithi/QT/30/2013-2014. However, an approved budget for the exercise was not availed. Further, a timetable/programme for the training or an after training report for the exercise was not availed to prove that the exercise indeed took place. It was also noted that the A.I.E. holder certificate in the voucher had not been signed and it remains unclarified as to whether the A.I.E. holder had approved of the expenditure.

As such, the expenditure was unauthorized and not accounted for.

Recommendation

It is recommended that the management account in full for the expenditure incurred or recover the amount from the responsible officers.

10.0 IT Environment - Integrated Financial Management Information System (IFMIS) and G-Pay - Production of inaccurate reports by IFMIS

The following observations were noted during the audit of the County IT environment:-

- The Integrated Financial Management Information System (IFMIS) was installed at the County Treasury in September 2013. However, the County Treasury started using IFMIS and G-pay systems on 02 December 2013. The delay was not explained.
- The expenditure incurred between July and November 2013 had not been captured in the system. In addition, it was noted that not all payments are passed through the IFMIS system after it was adopted. These were mainly payments totaling Kshs.12,497,594.30 as at 31 March 2014 made by the cashier in cash.
- Further, scrutiny of the IFMIS ledger revealed that the system was not generating payment voucher numbers. Instead this was being done manually. The payment

voucher numbers on the physical voucher should be uniquely traced in the IFMIS ledgers with respect to each payment.

- The IFMIS system operates a cash book module. The two cash books - development and recurrent that are in the system, only show payments made but no receipts resulting in overdrawn cashbooks throughout the period. It was explained that the concerned staff are not able to feed the necessary data for the cash books to reflect both the debit and credit entries.
- Manual vote books are still being used parallel to the IFMIS system. This is an indication that the treasury personnel have not been adequately trained on the operations of IFMIS. Consequently, there is duplication of function and also underutilization of staff and unnecessary expenditure in using the parallel systems.
- The G-pay report produced by the system was not indicating the dates of the transactions in some cases, but providing numerical numbers only. It was therefore not possible to confirm when the payments were made.

Recommendations

- The County Executive should ensure that IFMIS ledger reports and other reports are accurately generated and in conformity with the prescribed financial regulations.
- The County Executive should ensure that all payments are posted in the IFMIS system regardless of whether they are paid through the office standing imprest.
- All officers at the County Treasury should be adequately trained on the operation of the IFMIS system and regular checks are carried out to ensure proper operations.
- Payment voucher numbers in the ledger should tally with those in the physical vouchers.
- The County Executive should develop and implement an IT Strategic plan, Steering Committee and Disaster recovery plan to assure on data integrity.

11.0 Current Debtors

As at 31 March 2014, the County had accumulated debtors totaling Kshs.32,997,646 as indicated at various Sub-Counties: Maara-Sub-County - Kshs.4,763,986; Chuka Igamba Ngombe – Kshs.5,071,308, Tharaka - Kshs.15,466,821, Chuka Urban -Kshs.7,695,532. The debtors had not been consolidated in a debtor's ledger and the debtors balances were extracted from the records of the individual Sub-Counties at the time of audit.

Recommendation

The County Executive should put in place an effective and efficient debtor management system which will ensure that all anticipated revenue is collected in the period it falls due.

12.0 Current Creditors

A schedule of unpaid bills as at 30 June 2014 for Kshs.38,083,229 was provided by the County Treasury. However, L.P.O.s and invoices supporting these pending bills were not availed for verification and confirmation. The authenticity of the pending bills could not be confirmed.

Recommendation

Creditors' ledger should be maintained by the County Treasury indicating all the settlements to date and current balances.

13.0 Non-Current Assets

According to the financial statements prepared by the defunct local authorities in Tharaka Nithi County, as at 28 February 2013, non-current assets were valued at Kshs.269,457,498. However, official taking over of these assets by the County Government had been done as at the time of audit. It was also observed that a master assets register taken over by the County Government from the devolved ministries and defunct councils had not been prepared by the County Government as at the 30 June 2014. In addition, the County Executive had procured various categories of non-current assets including motor vehicles and construction of temporary offices at Kathwana among others. However, the assets had not been recorded in the fixed assets register.

Recommendation

- The County Executive should ensure that a master fixed assets register is maintained and updated regularly.

14.0 Failure to issue Authority to Incur Expenditures (AIEs)

The County Government had incurred expenditures totaling to Kshs.884,882,886 as per expenditure returns without the County Executive Committee Finance Member transmitting the General Warrant to all Accounting officers and authorizing them to incur expenditure as required by the Public Finance Management Act, 2012.

Recommendation

The County Executive Committee Member for Finance should henceforth transmit the General Warrant to all Accounting officers and authorize them to incur expenditure.

Conclusion

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

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

Edward R.O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

28 May 2015