

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL OPERATIONS OF  
COUNTY ASSEMBLY OF NAKURU**

**FOR THE PERIOD  
1 JULY 2014 TO 30 JUNE 2015**

## Table of Contents

EXECUTIVE SUMMARY .....	1
Introduction .....	1
Audit Objectives .....	1
Terms of Reference .....	1
Key Audit Findings .....	1
1.0 Budgetary Control .....	1
2.0 Car and Mortgage Loans Scheme .....	2
2.1 Interest Revenue from Car Loan and Mortgage Scheme .....	2
2.2 Collateral Documents for Car Loans .....	2
3.0 Utilities.....	3
3.1 Cost of foreign and domestic travel .....	3
3.1.1 Travel Expenditure for Training in Singapore .....	3
3.1.2 Travel Expenditure for Training in India.....	3
3.1.3 Travel Expenditure for Imprest Issued for Trip to Houston, Texas .....	3
3.1.4 Unsupported Subsistence and Night out Allowances .....	4
3.2 Hospitality Supplies and Services .....	4
4.0 Expenditure on Legal Services.....	4
5.0 Unaccounted for Fuel.....	4
6.0 Overpayment of Airtime Allowance .....	4
7.0 Tax Demand.....	5
8.0 Audit Committee.....	5
Detailed Audit Findings .....	6
1.0 Budgetary Control .....	6
2.0 Car and Mortgage Loans Scheme .....	6
2.1 Interest Revenue from Car Loan and Mortgage Scheme .....	6
2.2 Collateral Documents for Car Loans .....	7
3.0 Utilities.....	7
3.1 Cost of Foreign and Domestic Travel .....	7
3.1.1 Expenditure on Training in Singapore .....	7
3.1.2 Expenditure on Training in India.....	8
3.1.3 Imprest Issued for Trip to Houston, Texas .....	8
3.1.4 Unsupported Subsistence and Night Out Allowances Not Supported .....	9
3.2 Hospitality Supplies and Services .....	9
4.0 Expenditure on Legal Services.....	9
5.0 Unaccounted for Fuel.....	10
6.0 Overpayment of Airtime Allowance .....	10
7.0 Tax Demand.....	10
8.0 Audit Committee.....	11
Appendix I .....	12

# REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL OPERATIONS OF COUNTY ASSEMBLY OF NAKURU FOR THE PERIOD 1 JULY 2014 TO 30 JUNE 2015

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## EXECUTIVE SUMMARY

### Introduction

The Auditor-General has the mandate to audit and report on the accounts of the National and County Governments under Article 229 of the Constitution of Kenya and the Public Audit Act, 2003. Further, the Constitution and Section 107 of Public Finance Management Act, 2012 requires the County Assembly to adhere to the principles of public finance.

### Audit Objective

The objectives of the audit was to ensure existence of internal controls for proper accountability of public resources, confirm that procurement of goods, works and services is done in accordance with the Public Procurement and Disposal Act, 2005 and related regulations, and that public funds have been utilized effectively and in accordance with the law.

### Terms of Reference

The terms of reference set for the audit include 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
- Imprests and advances
- Cash and bank balances
- Human Resource Records

### Key Audit Findings

#### 1.0 Budgetary Control

During financial year under review, the County Assembly budgeted to receive Kshs.1,050,624,914 out of which Kshs.1,039,267,983 was received leading to an under-funding of Kshs.11,356,931. Further, out of the funds received, the County Assembly spent Kshs.821,433,597, which implies a budgetary utilization capacity of 78% as show below:

<b>Expenditure Item</b>	<b>Budget Amt (Kshs)</b>	<b>Actual Amount (Kshs)</b>	<b>Variance Amount (Kshs)</b>	<b>Utilization level %</b>
Employee Costs	269,901,080	269,901,080	-	100%
Use of goods and services	459,167,549	439,669,257	19,498,292	96
Other recurrent Expenditure	19,056,285		19,056,285	0%
Development	284,500,000	111,863,260	172,636,740	39%
Debt resolution	18,000,000		18,000,000	0%
<b>Total</b>	<b>1,050,624,914</b>	<b>821,433,597</b>	<b>229,191,317</b>	<b>78</b>

Although the county absorption rate was only 78%, it was quite clear that some allocation were unnecessary like debt resolution and other expenditure for no expenditure was incurred in these two items. The County Assembly should not just allocate money to herself if it's not needed as this denies other more deserving departments.

## **2.0 Car and Mortgage Loans Scheme**

### **2.1 Interest Revenue from Car Loan and Mortgage Scheme**

The County Assembly of Nakuru operates a car and mortgage loan scheme which maintains an account at Family Bank that had initial deposits of Kshs.150 million and Kshs.170 million for the car loan and mortgage respectively.

In the year under review, the fund earned interest of Kshs.9,735,094, out of which the County Assembly was to receive Kshs.7,301,320 (or 75% share) in accordance with the agreement made with the bank. However, it was not possible to confirm how the revenue earned was treated since relevant bank statements were not provided for audit verification.

### **2.2 Collateral Documents for Car Loans**

The County Assembly gave each of the 75 Members of the County Assembly (MCAs) a car loan of Kshs.2 million. However, the repayment was pegged on allowances instead of the members' salaries. Further, the logbooks of 15 beneficiaries had not been registered jointly, as collateral, in their respective names and that of the County Assembly Service Board.

In the circumstance the county does not have all the security to fall back to incase of default.



### **3.0 Utilities**

#### **3.1 Cost of foreign and domestic travel**

The County Assembly utilized their full budget allocation on domestic travel of Kshs.85,506,304 which was 10% of total recurrent expenditure. A further cost of Kshs.34,029,034, was used on foreign travel bringing the total cost of travel to Kshs.119,535,338 or 15% of the total expenditure. It appears that spending 15% of the total expenditure on travelling alone contravenes the fiscal responsibility principles of public finance which require public funds to be used prudently and responsibly. Further, much of the expenditure was for air tickets, per diem and training. However, certain payment vouchers that were examined were found to lack adequate documentation that would authenticate accountability. Some of the cases are indicated below:-

##### **3.1.1 Travel Expenditure for Training in Singapore**

The County Assembly paid per diem allowances of Kshs.4,449,016 to 16 Nos MCAs in respect of a training trip to Singapore. The training which was to take place from 26-30 August was on infrastructure and urban development. The report prepared for the County Assembly revealed that the delegation was in Singapore to tour of a water reclamation Centre, land transport authority offices, urban development authority offices, and a flood control dam. It was not clear how the members benefited from this trip.

##### **3.1.2 Travel Expenditure for Training in India**

The County Assembly paid per diem allowances totaling to Kshs.2,088,504 to 14 Nos MCAs in respect of a training trip to Jaipur, India. The training which was to take place from 6-10 October, 2014 was titled, "The place of cottage industries in regional governments". However, a report prepared for the County Assembly upon return revealed that the delegation was in Jaipur, India, on a tour of a poultry farm, a hospital, a university and a dairy factory. It appear the report made did not reconcile with title of the intended training. In the circumstances, the county may not have received value for money.

##### **3.1.3 Travel Expenditure - Imprest Issued for Trip to Houston, Texas**

The Principal ICT Officer received an imprest of Kshs.1,000,000 to cater for expenses for a delegation of 7 persons that travelled to Houston, Texas USA from 24.5.2015 to 2.6.2015. The imprest was later surrendered with a supporting document indicating that payment was made for the hire of transport vehicles during the period from 1.6.2015 to 5.6.2015. However, passenger itinerary tickets produced for audit indicated that the delegation arrived in Nairobi from Texas on 2.6.2015. Therefore the expenditure was not adequately supported.

### **3.1.4 Unsupported Subsistence and Night out Allowances**

During the period under review, the Assembly spent Kshs.7,254,220 on domestic travel and subsistence allowance for various officials. Examination of the payment vouchers for the expenditure showed they were not properly supported with relevant documents such as programs, vehicle work tickets or authority documents. In the circumstance the propriety of the expenditure could not be confirmed.

### **3.2 Hospitality Supplies and Services**

The County Assembly spent Kshs 136,495,237 or about 17% of total expenditure on hospitality supplies and Services. Included in the balance was members sitting allowance and mileage claim of Kshs.95,000,000 and Kshs.14,000,000 respectively. However, it was noted that the attendance register both at plenary and in committees is controlled by biometric system of identification which was properly reconciled to the individual payments. However the time taken in the meeting appeared too short in several occasions.

In the circumstance it would appear that members attended the meeting to justify their allowance as opposed to participation.

### **4.0 Expenditure on Legal Services**

The County Assembly paid Kshs.2,886,000 to a legal firm, M/s Odhiambo & Odhiambo Advocates in respect of legal services. However, the payment voucher to support the payment and the accompanying legal fee note was not produced for audit verification. In the circumstance it has not been possible to authenticate the propriety of that payment.

### **5.0 Unaccounted for Fuel**

The County Assembly spent Kshs.9,213,372 on purchase of fuel and lubricants from two suppliers. Out of this amount, Kshs.5,499,314 was paid for purchases from M/s Kinamba Evans Enterprise while Kshs.3,714,058 was for purchases from M/s Vivo Energy Kenya Ltd. However, it is not clear how M/s Vivo Energy Kenya Ltd was engaged in the absence of supporting procurement documents. Further, the fuel register, detail orders, work tickets or any other form of accountable documents were not provided to support fuel consumption.

### **6.0 Overpayment of Airtime Allowance**

In the year under review, the Speaker and the four members of the County Assembly Service Board (CASB) were each paid monthly airtime allowance of Kshs.20,000 and Kshs.10,000 respectively. However, this was contrary to a circular of the Salaries and Remuneration Commission which stipulates that the Speaker and CASB members should draw monthly airtime allowance of Kshs.10,000 and Kshs.5,000 respectively.

Therefore, the Speaker and the four members of the board were overpaid by a total of Kshs.360,000 during the year under review.

#### **7.0 Tax Demand**

During the year under review, a tax assessment was conducted by Kenya Revenue Authority (KRA) on the financial transactions of the County Assembly for the period from April 2013 to March 2015. The assessment revealed various anomalies out of which KRA issued a tax demand notice of Kshs.92,255,429. Out of this amount, the County Assembly had paid Kshs.20,372,878 by June 2015. However, no evidence has been provided to confirm that the matter has been settled. The County Assembly is likely therefore to have its bank account attached to enforce payments unless the matter is resolved.

#### **8.0 Audit Committee**

In the year under review, the County Assembly of Nakuru did not have a functional audit committee as required by clause 167 of the Public Finance Management (County Governments) Regulations, 2015. Under the circumstances, the County Assembly may not be able to effectively assess its overall risk or review the adequacy of its internal controls.



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**AUDITOR-GENERAL**

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**23 September 2016**

**DETAILED REPORT OF AUDITOR-GENERAL ON THE FINANCIAL OPERATIONS OF COUNTY ASSEMBLY OF NAKURU FOR THE PERIOD 1 JULY 2014 TO 30 JUNE 2015**

**DETAILED AUDIT FINDINGS**

**1.0 Budgetary Control**

During financial year under review, the County Assembly budgeted to receive Kshs.1,050,624,914 which included employee costs of Kshs.269,901,080 which is paid direct by the County Government of Nakuru. However, the County Assembly received Kshs.1,039,267,983 leading to an under-funding of Kshs.11,356,931. Further, out of the funds received, the County Assembly spent Kshs.821,433,597, which implies a budgetary utilization capacity of 78% as show below.

<b>Expenditure Item</b>	<b>Budget Amount (Kshs)</b>	<b>Actual Amount (Kshs)</b>	<b>Variance Amt (Kshs)</b>	<b>Utilization level %</b>
Employee Costs	269,901,080.00	269,901,080.00	-	100%
Use of goods and services	459,167,549.00	439,669,257.00	19,498,292.00	95.75%
Other recurrent Expenditure	19,056,285.00		19,056,285.00	0%
Development	284,500,000.00	111,863,260.00	172,636,740.00	39.32%
Debt resolution	18,000,000.00		18,000,000.00	0%
<b>Total</b>	<b>1,050,624,914.00</b>	<b>821,433,597.00</b>	<b>229,191,317.00</b>	<b>78.19%</b>

Included in the use of goods and services were the following expenditure items and their respective variances.

<b>Sampled utilities</b>	<b>Budgeted (Kshs)</b>	<b>Actual (Kshs)</b>	<b>Variance (Kshs)</b>
Domestic travel and subsistence	85,506,304.00	85,506,304.00	-
Foreign travel and subsistence	34,300,000.00	34,029,034.00	270,966.00
Rent Expenses	67,347,970.00	67,347,970.00	-
Hospitality supplies and services	136,514,565.00	136,495,237.00	19,328.00
Other operating expenses	42,275,749.00	41,629,388.00	646,361.00

**2.0 Car and Mortgage Loans Scheme**

**2.1 Interest Revenue from Car Loan and Mortgage Scheme**

The County Assembly of Nakuru operates a car and mortgage loan scheme which maintains an account number 018 000 055 807 at Family Bank, Nakuru for its fund. The fund had an initial deposit of Kshs.150 million and Kshs.170 million for the car loan and mortgage respectively.



In the year under review, the fund earned interest of Kshs.9,735,094, out of which the County Assembly was to receive Kshs.7,301,320 (or 75% share) in accordance with Clause 5.3 of the Fund Management Agreement between the bank and the County Assembly. Subsequently, the County Assembly opened a separate account No. 018 000 067 410 at the same bank into which the interest earned would be credited. However, it was not possible to confirm how the revenue earned was treated since bank statements for the interest account were not provided for confirmation. Therefore, there is a possibility that the County Assembly may not have received its share of revenue as stipulated in the agreement.

### **Recommendations**

The management should provide the relevant bank statements for the interest account for audit confirmation.

## **2.2 Collateral Documents for Car Loans**

The County Assembly gave each of the 75 Members of the County Assembly (MCAs) a car loan of Kshs.2 million. However, the repayment was pegged on allowances instead of the members' salaries. Therefore, loan recovery could not be guaranteed since allowances are not a consistent source of income. Further, the logbooks of 15 beneficiaries had not been registered jointly in their respective names and the County Assembly Service Board as required by regulations of the loan scheme. Therefore, the County Assembly remains exposed to the extent of the outstanding loan amounts due from the beneficiaries whose vehicles are not jointly registered.

### **Recommendation**

The County Assembly should reverse the decision of charging the loan to allowances and instead charge it to salaries. Further, log books should be jointly registered and kept by the administrator of the scheme as required by regulations.

## **3.0 Utilities**

### **3.1 Cost of Foreign and Domestic Travel**

The County Assembly utilized their full budget allocation on domestic travel of Kshs.85,506,304 which was 10.41% of total expenditure. The total cost of travel including the cost of foreign trip of Kshs.34,029,034 was Kshs.119,535,338 or 14.55% of the total expenditure. Much of the foreign expenditure was for air tickets, per diem and training. However, certain payment vouchers that were examined were found to lack adequate documentation that would authenticate accountability. The cases are indicated below:

#### **3.1.1 Expenditure on Training in Singapore**

The County Assembly paid per diem allowances totaling to Kshs.4,449,016 to 16 Nos MCAs in respect of a training trip to Singapore. The training which was to take place from 26-30 August was on infrastructure and urban development. A course outline for the training indicated that from day 1 to day 5, the participants would learn about

principles and techniques to manage projects, develop project management plans, stakeholders' management, time management, risk management and procurement management.

However, a report prepared for the County Assembly revealed that the delegation was in Singapore on a sightseeing tour of a water reclamation centre, land transport authority offices, urban development authority offices, and a flood control dam. Given that the content of the report does not relate with the course outline, it is likely that no value was obtained from the trip by the MCAs.

### **Recommendation**

The delegates to foreign trips should be persons who have the relevant skills that the County can benefit from.

#### **3.1.2 Expenditure on Training in India**

The County Assembly paid per diem allowances totaling to Kshs.2,088,504 to 14 Nos MCAs in respect of a training trip to Jaipur, India. The training which was to take place from 6-10 October, 2014 was titled, "The place of cottage industries in regional governments". A course outline for the training indicated that from day 4 to day 6, the participants would learn about cost trends, cash flows, investment analysis and decision making under certainty and uncertainty conditions. However, a report prepared for the County Assembly revealed that the delegation was in Jaipur, India, on a sightseeing tour of a poultry farm, a hospital, a university and a dairy factory. Given that the content of the report does not relate with the course outline, it is not clear how value was obtained from the trip by the MCAs.

### **Recommendation**

The delegates to foreign trips should be persons who have the relevant skills that the County can benefit from.

#### **3.1.3 Imprest Issued for the Trip to Houston, Texas**

The Principal ICT Officer received an imprest of Kshs.1,000,000 to cater for expenses for a delegation of 7 persons that travelled to Houston, Texas USA from 24.5.2015 to 2.6.2015. The imprest was issued vide warrant No. 2304665 and cheque No.002 277, both of 22.5.2015. The imprest was later surrendered vide payment voucher No. 1463 of 25.5.2015 with a receipt No. H987 654 attached to the voucher indicating that payment was made to a firm, Continental Charters of P.O. Box 570306, Houston, Texas 77057 Houston, for the hire of 5 Nos. eight-seater vehicles during the period 1.6.2015 to 5.6.2015. However, passenger itinerary tickets availed for audit indicated that the delegation arrived in Nairobi from Texas on 2.6.2015.

Therefore, it is doubtful if the amount was utilized for official purpose.

### **Recommendation**

The amount should be accounted for or recovered from the particular officer.

### 3.1.4 Unsupported Subsistence and Night Out Allowances Not Supported

During the period under review, the Assembly spent Kshs.7,254,220 on domestic travel and subsistence allowance. Examination of the payment vouchers for these expenditure showed they were not properly supported with relevant documents such as programmes, vehicle work tickets or authority documents. The amount is broken out as shown below and at **Appendix I**.

<b>Officials</b>	<b>Purpose</b>	<b>Amount (Kshs)</b>
Members of County Assembly	Night Out Allowances	4,628,000
Speaker's Domestic travels	Night Out and Lunches	194,020
Committees Domestic Travels	Lunches and Night Out	2,432,200
<b>Total</b>		<b>7,254,220</b>

Since the expenditure was not supported, it implies that it is doubtful and not a proper charge on public funds. Therefore, the officers concerned should be called to account.

#### **Recommendations**

Payee should account for the expenditure without which recovery measures should be instituted.

### 3.2 Hospitality Supplies and Services

The County Assembly also spent Kshs.136,495,237 or about 16.62% of the total expenditure . This is an area with potential for saving so as to release funds for development. Included in the balance was members sitting allowance of Kshs.95,000,000. The mileage expenditure claimed by members of the county assembly amounted to Kshs.14,000,000. It was noted that the attendance register both at plenary and in committees is controlled by biometric system of identification which was properly reconciled to the individual payments. However, the time taken in the meeting appeared too short in several occasions. In the circumstance it would appear that members attended the meeting to justify their allowance as to participation.

#### **Recommendation**

All the allowances paid to the committee members should be accounted for.

### 4.0 Expenditure on Legal Services

The County Assembly paid Kshs.2,886,000 to a legal firm, M/s Odhiambo & Odhiambo Advocates in respect of legal services. The payment was made vide a payment voucher No. 1000 of 12.5.2015. However, the voucher was supported by a fee note of Kshs.656,000 in respect of preparation of a bill on gender equality and women empowerment. Therefore, the County Assembly may have paid the firm an extra Kshs.2,230,000 without receiving any services.

## **Recommendation**

The management should reconcile payments to the firm vis-à-vis the services received to determine possible anomalies.

### **5.0 Unaccounted for Fuel**

The County Assembly spent Kshs.9,213,372 on purchase of fuel and lubricants from two suppliers. Out of this amount, Kshs.5,499,314 was paid for purchases from M/s Kinamba Evans Enterprise while Kshs.3,714,058 was for purchases from M/s Vivo Energy Kenya Ltd. Of the two suppliers, the former had been pre-qualified in the previous year. However, it is not clear how M/s Vivo Energy Kenya Ltd was engaged. Further, the payments to the suppliers were not supported by Local Purchasing Orders (LPOs), indicating the quantities of fuel that were procured. There were also no fuel register, detail orders, work tickets or any other form of accountable documents to support fuel consumption. Therefore, the fuel may not have been used for official purposes.

## **Recommendations**

The management should keep proper financial and accounting records to support expenditure.

### **6.0 Overpayment of Airtime Allowance**

In the year under review, the Speaker and the four members of the County Assembly Service Board (CASB) were each paid monthly airtime allowance of Kshs.20,000 and Kshs.10,000 respectively. However, this was contrary to the Salaries and Remuneration Commission circular Ref. No. SRC/TS/CGOVT/3/16 of 27 November 2013, which stipulated that the Speaker and CASB members should draw monthly airtime allowance of Kshs.10,000 and Kshs.5,000 respectively. Therefore, the Speaker and the four members of the board were overpaid by Kshs.120,000 and Kshs.240,000 respectively, all totalling to Kshs.360,000 during the year.

## **Recommendation**

The over-paid amount should be recovered.

### **7.0 Tax Demand**

During the year under review, a tax assessment was conducted by Kenya Revenue Authority (KRA) on the financial transactions of the County Assembly. The assessment which covered the period from April 2013 to March 2015 revealed anomalies in the deduction and remittance of Pay As You Earn (PAYE), withholding tax (WHT) and withholding Value Added Tax (WVAT). Consequently, the County Assembly was slapped with a tax demand of Kshs.92,255,429, comprising a principal amount of Kshs.62,162,105 and interest and penalties of Kshs.30,093,324.

A consultant hired by the County Assembly made a request to KRA to lower the tax demand to Kshs.30,848,002. Out of this amount, the County Assembly paid

Kshs.20,372,878. However, no evidence has been provided to prove that KRA has acceded to the request to revise the tax demand to a lower figure. Under the circumstance, if the matter is not settled, the penalty and interest amounts are likely to escalate.

### **Recommendation**

The management should come up with measures of settling the matter.

### **8.0 Audit Committee**

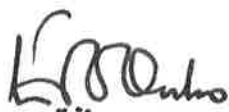
In the year under review, the County Assembly of Nakuru did not have a functional audit committee as required by clause 167 of the Public Finance Management (County Governments) Regulations, 2015. Although, a letter Ref. MOF/ IAG/NKR/05/1 (17) from the National Treasury instructed the County Assembly to establish an interim committee, at the time of audit the committee had not been established. Under the circumstances, the County Assembly may not be able to effectively assess its overall risk or review the adequacy of its internal controls.

### **Recommendation**

The County Assembly should establish an audit committee to enhance its internal control mechanisms.

### **Conclusion**

The County Assembly of Nakuru should address the anomalies noted in order to ensure effective delivery of service to the people of Nakuru. Laid down Government Procedures and Processes should be adhered to so as to ensure that public resources are only utilized for purposes for which they are intended.



**FCPA Edward R.O. Ouko, CBS**  
**AUDITOR GENERAL**

**NAIROBI**

**23 September 2016**