REPUBLIC OF KENYA

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL OPERATIONS

OF

KAJIADO 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 KAJIADO COUNTY EXECUTIVE FOR THE PERIOD 1 JULY 2013 TO 30 JUNE 2014

EXECUTIVE SUMMARY

Background Information

The Constitution of Kenya, 2010 under Article 176, created the County Governments which consist of the County Assembly and the County Executive. The Kajiado County Executive consists of the Governor and the County Executive Members as the top management of the County.

Introduction

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

Terms of Reference

The Office of the Auditor-General is an independent office mandated by Article 229 of the Constitution to audit the accounts of the National and County Governments. In this regard, the Office planned an audit of the financial operations of the Kajiado County Executive for the period 1 July 2013 to 30 June 2014 with the following audit objectives:

(i) Assessment of controls over management of cash and bank accounts.

(ii) Assessment of controls over management of assets under the control of the County Executive.

(iii) Assessment of compliance with the procurement laws in process of acquisition of goods or services.

(iv) Assessment of compliance with Public Financial Management Act, 2012 in the utilization of public funds.

(v) Compliance with other relevant laws and regulations.

(vi) To ascertain the integrity and reliability of financial and other information used by management in the utilization of public funds.

(vii) Compliance with other relevant laws and regulations.

(viii) To ascertain the integrity and reliability of financial and other information used by management in the utilization of public funds.

(ix) To confirm that all necessary supporting documents, records and accounts have been kept in respect of all transactions.

Audit Methodology

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

i) Interviews with key officers at the County Executive offices.

ii) Review of applicable legislation and regulations.

iii) Examination of payment vouchers, cashbooks, vote books, bank statements, and bank slips, miscellaneous receipt books, procurement documents, stores records, asset registers and other related records.

iv) Review of minutes of various meetings where there were resolutions regarding utilization of public funds.

v) Physical inspection and verifications.

vi) Observation of processes and activities.

vii) Review of documents used by management to monitor use of funds.

Scope and Determination of Responsibilities

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

The matters mentioned in this report are therefore those that were identified through tests considered necessary for the purpose of the audit and it is possible that there might be other matters and/or weaknesses that were not identified.

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

KEY AUDIT FINDINGS

1.0 CURRENT ASSETS

1.1 Cash and Bank Balances

As previously reported in the special audit for the eight months period ended 20 February 2013, details of amounts transferred from the five (5) bank accounts held

by the defunct Local Authorities to the County Government were not provided for audit review and verification. The defunct Authorities did not maintain cashbooks in the LAIFOM system while manual cashbooks maintained by the Council were not balanced and no bank reconciliations were provided as at 30 June 2013.

During the year under review, amount of Kshs.982,221,316 is indicated as cash and cash equivalent in the financial statements as at 30 June 2014. The County Executive has maintained a cashbook (F.O.26), which however is not checked, balanced and signed by a senior officer. It was also observed that cash on hand was also not verified on a regular basis to confirm the correctness of all entries made. Further, bank reconciliation statements for the period under audit were not up to date.

From the foregoing, we were not in a position to confirm the balances transferred to the County Government as at 28 February 2013 and the accuracy of the cash and cash equivalent balance as at 30 June 2014.

1.2 Outstanding Debtors

The Kajiado County reflected an amount of Kshs.439,825,724 under outstanding debtors as having been transferred from the two defunct Local Authorities as at 28 February 2013. The financial statements as at 30 June 2014 reflects an outstanding debtors balance of Kshs.6,808,979 for both the Executive and County Assembly. No movement has been provided for the two sets of records. Consequently, the completeness and accuracy of the amounts due to the County Executive from third parties and their collectability as at 30 June 2014 cannot be confirmed.

Under the circumstances, the County Government may not be able to plan for its cash flows and even to collect in the absence of comprehensive records on those who owe it.

1.3 Standing and Temporary Imprests

The County Executive had issued an amount of Kshs.24,739,840 as imprest during the year. Out of total issued imprest an amount of Kshs.17,930,861 was surrendered while an amount of Kshs.6,808,979 was still outstanding as at 30 June 2014. Out of the surrendered amount of Kshs.17,930,861, an amount of Kshs.14,974,940 was not supported with documentary evidence. In addition, the imprest was being expensed on issuance instead of being treated as an advance to be surrendered on completion of an assignment. This is contrary to existing Government regulations on issuance and surrender of imprests.

Further, although majority of expenditures examined indicate that they were incurred through imprests, no comprehensive imprest register was maintained for the period to show issuance and surrenders of imprests at a given date.

2.0 NON CURRENT ASSETS

2.1 Movable assets

The fixed assets register availed for audit verification was not updated so as to include all the assets taken over from the defunct local authorities and those acquired in the period under review. Furthermore, no values were attached to the assets. Of particular interest was a motor grader of undetermined value, Registration Number, KBQ 114D financed using a loan from Co-operative Bank and is now grounded at Loitokitok. A mechanical report for the grader was not availed for audit verification.

2.2 Immovable Assets

As reported in previous periods and as per records availed, it was noted that the defunct local authorities had fifty four (54) parcels of land which had no ownership documents. The source of the sizes and values ascribed to some of the parcels was not clear, while the acreage and values for others was unknown at the time of the audit. This state of affairs contravenes the provisions of Government financial regulations and paragraph 147 of the Public Finance Management Act, 2012 which provides for the role of the accounting officer as among other things promoting and enforcing transparency, effective management and accountability with regard to the use of finances/goods.

2.3 Biological Assets

An audit verification carried out in the demonstration farm revealed that, twenty six (26) heads of cattle were disposed off at the demo farm in April 2014 but had not been collected at the time of the audit. These included fourteen cows, five heifer calves, five bulling calves and two bulls. The details of their payments were scanty and no reason was given for the continued stay of the disposed animals. The County Executive was taking care and incurring costs on assets owned by third parties.

2.4 Refurbishment/Repair of Buildings

Several buildings were refurbished during the financial year under review. However, of interest to the audit team was the refurbishment of the Governor and his deputy's residences at a cost of Kshs.35,813,526 and that of the Public Service Board office block and perimeter chain link at a cost of Kshs.10,886,768. In addition colossal amounts of money have been expended on the repairs. However, this was done without due consideration to the status of ownership of these buildings which, though being occupied by the two county officials, were previously occupied by the defunct provincial administrators. It was not possible to confirm whether the properties were transferred to the County Government. This state of affairs exposed public funds to misapplication contrary to Article 201 (d) of the Constitution, which provides that, public money shall be used in a prudent and responsible way and Paragraph 147 of the Public Finance Management Act, 2012 which provides for the role of the accounting officer as among other things promoting and enforcing

transparency, effective management and accountability with regard to the use of finances.

Considering that expenditure on the indicated properties was incurred before ownership of the properties could be confirmed, it is possible that the expenditure of Kshs.46,700,294 incurred on the projects is a nugatory expenditure.

3.0 NON-CURRENT LIABILITIES

3.1 Long Term Loan

A loans register or any other details in respect of loans advanced to the defunct local authorities and inherited by the County Government were not available for audit verification. This is despite repayments being done during the period under review. Under the circumstances, it was not possible to confirm the amount advanced and paid so far, the propriety of the repayments during the year and the outstanding balance payable and also confirm whether the requirements of the PFM Act, 2012 with regard to borrowing was followed.

4.0 CURRENT LIABILITIES

4.1 Sundry Creditors

The County Executive had not prepared a listing of sundry creditors including those inherited from the defunct local authorities as to reflect the total liability position at the time of our audit and hence we were unable to confirm the liabilities due to third parties from the Kajiado County Executive. Under the circumstances, the County Government may not be able to plan for its cash flows in the absence of comprehensive records on those who it owes.

4.2 Pending Bills - Kajiado Level 4 Hospital

A review of records held in the hospital facility revealed that that the hospital management had incurred expenditure amounting to Kshs.4,063,291 relating to non-pharmaceuticals and other sundry stores without the necessary authority. Although the items were properly received in the records and accounted for, there was no Authority to Incur Expenditure contrary to Section 5.5.1 of the Government Financial Regulations and Procedures which prohibits spending or committing of funds until an authority in form of Authority to Incur Expenditure (AIE) has been received.

The existence of this debt may deter the suppliers from supplying goods and services on credit to the hospital in the future thus requiring the management to make cash purchases which may not be feasible and appropriate.

5.0 EXPENDITURE

5.1 Procurement of ICT Equipment and Mobile Phones

During the period under review, the County Executive procured phones with a value of Kshs.2,490,000. However, their details were not taken on charge in the S3 cards and hence it was not possible to verify their status and locations at the time of the audit. In addition, the items were supplied at different prices, where on 11 March 2014, 17 no. Samsung Galaxy Note III were procured at Kshs.90,000 each while on 10 April 2014, 7 no. of similar items at Kshs.80,000 each. The two prices are beyond what is allowed by the Office of the President circular Ref: OP/CAB/15 of 5th March 2010. Further, there were no requisitions, to support the need for these items and for whom they were procured contrary to Public Procurement and Disposals regulations in place and the PFM Act 2012 which requires promoting and enforcing transparency, effective management and accountability with regard to the use of finances.

5.2 Procurement of Legal Services

During the period under review, the County Executive incurred legal fees amounting to Kshs.12,104,950. However, records to support the basis of these payments including written instructions, any contracts which may have been signed between the law firms and the employer and payment vouchers in respect of these payments were not availed for audit verification contrary to Regulations 22(1) of Public Procurement and Disposal Regulations of 2006, 22(4), 25(3) and Attorney General circular Ref AG/6/D/144 VOL.1 of 3rd May 2010 and the Presidency circular Ref: OP.CAB.39A dated 17th June 2014 on engagement or appointment of private law firms or lawyers to represent the Government among others. Further, no documents were made available to show how the service providers were requisitioned for, identified and contracted.

5.3 Double Payment to a Firm

Examination of payment vouchers and bank statements sampled revealed that a firm was double paid for the same services using the same documents. This was done through payment voucher No. 3429 of 31 March 2014 for Ksh.500,000 which was cleared on 1 April 2014 vide original LPO and authorized on 31 March 2014 and an un numbered payment voucher of 4 April 2014 for Kshs.500,000 which was cleared on 7 April 2014 vide triplicate LPO and authorized on 6 April 2014.

There is no specific explanation or documents attached as evidence to support this payment other than the description in the LPO indicating full board accommodation from 26th to 31st December 2013. This is contrary to the Public Procurement and Disposal Regulations, 2006. This state of affairs shows a case of either weak internal control and or poor record keeping casting doubt on assurance that public funds are utilized for the intended purposes which may give an opportunity to fraudulent practices if they go unchecked.

5.4 Misapplication of Emergency Funds

The County Executive spent Kshs.587,076 from the Emergency Fund on the repair of two motor vehicles belonging to the Olkejuado Water and Sanitation Company after they had been vandalized prior to the repairs. However, the existing regulations on the use of emergency funds do not support such expenditure since it is well catered for under the maintenance budget. In addition, the relationship between the County Government and the water company was not clarified to the audit team. Further, our examination of the emergency fund expenditure indicated that there were other expenses which ought to have been catered for under other line items and not the fund, for example payment of sitting allowances and repair of boreholes totalling Kshs.3,472,894. From the foregoing, the Kajiado County Executive is in breach of the rules and regulations governing the use of emergency funds.

5.5 Payment Vouchers not presented for audit review

Payment vouchers for payments amounting to Kshs.90,009,210 were not availed for audit verification and hence we were unable to confirm whether the payments amounting Kshs.90,009,210 were a proper charge against public funds.

5.6 Unsupported Payment Vouchers

Examination of payment vouchers for the period revealed that contrary to financial regulations in place and the Public Finance Management Act, 2012, there were payments that were unsupported amounting to Kshs.10,224,569. These amounts reflect only a small sample of the whole population.

Cases were noted where expenditure was incurred on travelling. However no documents were attached to the payment vouchers to confirm that the officers travelled. In other cases, there was failure to state purpose of the journey especially for journeys made out of the country. Further, copies of passports and boarding passes were not availed and attached to the payment vouchers.

Payment vouchers were not properly coded and posted in the cashbook.

Consequently, the propriety of the expenditure amounting to Kshs.10,224,569 could not be ascertained.

6.0 PROJECTS

6.1 Planning and Prioritization

A sample of the projects examined and verified revealed that planning and execution was done without due regard to value addition to the lives of the taxpayer. This was exhibited by the fact that, many small projects were planned and executed all over the County. The argument was that it was necessary to carry out small projects all over to ensure development to all the corners of the county. However, since the funds available are limited, the County has ended up with a proliferation of so many

incomplete projects which have no value to the community they were supposed to serve. For instance, there are so many boreholes drilled and capped and construction of a computer lab without power points (Isinya Polytechnic) instead of doing a few projects in phases to completion with the available resources.

Although some works were completed in accordance with the provisions of the related contracts, the same may not have any positive effect on the lives of the community due to their incompleteness.

6.2 Project Payments

Payment vouchers sampled and examined revealed that, some claims for payments amounting to Kshs.118,398,845.45 were not fully supported by measured works and schedule detailing the percentage of completion and amount payable as required. In the circumstances, it was not possible to confirm the percentage of completion and the propriety of the payments in the absence of measured works.

6.3 Project Files and Record Keeping

We noted that project files presented for audit review did not contain information on amount spent at a particular time, procurement procedures used to select the contractor, certificates at specific predetermined stages of the contract (percentage of completion) from the County Works Officer certifying the works completed and payable, bills of quantities, minutes of the monitoring and evaluation committee, architectural drawings, project approvals by the relevant authorities, i.e. drilling authorization, hydrological and bacteriological reports for boreholes etc. In addition, we noted that monitoring and evaluation of projects is done on an adhoc basis since there is no plan for the same in place. Further, we also noted that some projects have more than one file. Under the circumstances, it was not possible to confirm the details of the County's projects' status in the absence of the relevant documents. In addition, there is a possibility of overpayment where a project has more than one file.

7.0 IT INTERNAL CONTROL ENVIRONMENT

The audit showed that Kajiado County does not have an up to date IT policy which may result to various risks including,

i) Loss of information
ii) Irregular activities taking place/ loss of electronic data
iii) Access of confidential information by unauthorised persons
iv) Unauthorised changes to information
v) Inappropriate decisions regarding IT investments

8.0 HUMAN RESOURCE

Human Resource records examined revealed that there was no approved human resource establishment document for the County Government in place at the time of the audit. Further, there was notable idle capacity especially from the devolved

functions, e.g. procurement officers in hospitals and field officers in agriculture while other departments visited did not have enough and qualified personnel, e.g. goods stores.

Under the circumstances, it was not possible to confirm whether the existing posts were within the approved human resource establishment and also it was not possible to confirm the propriety of the per diem allowances in the absence of a policy document on such payments.

In addition, the County does not appear to have a policy on payment of allowances. We noted instances where per diems were paid at different rates to same officers and officers who accompany the governor to various destinations and back without spending a night being paid allowances. No policy was provided to us on how the allowances were determined.

Failure to utilize the available staff leads to nugatory expenditure as the idle staffs are being paid. Further, idle staff may be engaged in anti social behavior which will eventually lead to low morale to even the active staff.

9.0 REVENUE AND OTHER RESOURCES

During the year under review, the County had an internally generated revenue of Kshs.442,882,905 against a budget of Kshs.468,483,477. However, a review of records and activities relating to revenue revealed that mapping out of revenue and other resource areas in the county had not been done as at the time of our audit. The County Government cannot therefore put in place mechanisms to raise the revenues and allocate resources to other areas in the absence of a clear road map. This is contrary to the requirements of the Public Finance Management Act, 2012 which requires among other things that the County Treasury mobilizes resources for funding the budgetary requirements of the County Government and putting in place mechanisms to raise revenue and resources.

10.0 EXPIRED DRUGS - KAJIADO LEVEL 4 HOSPITAL

Records provided indicated that the hospital had an unquantified stock of expired drugs and non-pharmaceutical items of undetermined value. However, the Hospital's management did not have an action plan in place on the disposal of the items at the time of the audit. These items are taking up a lot of space which should have otherwise been used to store other usable stocks. Further, there is a likelihood of the items being off loaded in the market should they fall in the hands of unscrupulous people thus posing a danger to the society.

11.0 INTERNAL CONTROL

11.1 Internal Audit

A review of systems of control vis a vis the internal audit unit in the county revealed the following weaknesses regarding the functioning of the internal audit unit contrary

to National Treasury Circulars and the Public Finance Management Act, 2012 which require government entities and other institutions to have an effective internal audit function.

- The scope of internal audit function did not include evaluating and reporting on the various departments of the Executive.

- Further, it did not include Internal controls applicable to high risk areas as identified by management.

- Audits for the financial year in the Annual Audit Plan were not finalized.

- Progress audit reports conducted during the year were made available to us; however, responses from the management on the issues raised were not availed for audit verification.

- Internal audit unit is understaffed and does not have staff with the necessary competencies to carry out the internal audit mandate.

- No confirmation in writing from the accounting officer allowing the unit unrestricted access to all records and assets of the County.

- No confirmation that an internal audit charter exists.

- An audit committee had not been constituted as at the time of audit.

Under the circumstances, the effectiveness of the Internal Audit unit is doubtful and in the absence of an effective Internal Audit function, rules and regulations the appropriate necessary corrective actions may not be taken promptly as expected.

Edward R.O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

25 May 2015

DETAILED AUDIT FINDINGS

1.0 CURRENT ASSETS

1.1 Cash and Bank Balances

As previously reported in the special audit for the eight months period ended 20 February 2013, details of amounts transferred from the five (5) bank accounts held by the defunct Local Authorities to the County Government were not provided for audit review and verification. The defunct Authorities did not maintain cashbooks in the LAIFOM system while manual cashbooks maintained by the Council were not balanced and no bank reconciliations were provided as at 30 June 2013.

During the year under review, amount of Kshs.982,221,316 is indicated as cash and cash equivalent in the financial statements as at 30 June 2014. The County Executive has maintained a cashbook (F.O.26), which however is not checked, balanced and signed by a senior officer. It was also observed that cash on hand was also not verified on a regular basis to confirm the correctness of all entries made. Further, bank reconciliation statements for the period under audit were not up to date.

From the foregoing, we were not in a position to confirm the balances transferred to the County Government as at 28 February 2013 and the accuracy of the cash and cash equivalent balance as at 30 June 2014.

Recommendations

i. The cash book should be balanced off at the end of the day's business as required by the government financial regulations and procedures.

ii. Bank reconciliations should be done at the end of the month as required by the government financial regulations and procedures.

iii. A deposits account should be opened in order for the County Government to differentiate own funds and those of third parties.

1.2 Outstanding Debtors

The Kajiado County reflected an amount of Kshs.439,825,724 under outstanding debtors as having been transferred from the two defunct Local Authorities as at 28 February 2013. The financial statements as at 30 June 2014 reflects an outstanding debtors balance of Kshs.6,808,979 for both the Executive and County Assembly. No

movement has been provided for the two sets of records. Consequently, the completeness and accuracy of the amounts due to the County Executive from third parties and their collectability as at 30 June 2014 cannot be confirmed.

Under the circumstances, the County Government may not be able to plan for its cash flows and even to collect in the absence of comprehensive records on those who owe it.

Recommendation

The County Government should compile and maintain a properly supported debtor's register to be able to collect the debts.

1.3 Standing and Temporary Imprests

An amount of Kshs.24,739,840 was issued as imprest. Out of this amount, Kshs.6,808,979 was outstanding as at 30 June 2014. An amount of Kshs.17,930,861 was cleared during the year out of which Kshs.14,974,940 had no supporting documents availed for audit verification. In addition, imprest was expensed on issuance instead of being treated as an advance to be surrendered on completion of an assignment. This was contrary to existing Government regulations on issuance and surrender of imprests.

Further, although majority of expenditures examined indicate that they were incurred through imprests, no comprehensive imprest register was maintained for the period to show issuance and surrenders of imprests at a given date.

Recommendations

i. The County government should adhere to the Government Financial Regulations and Procedures at all times when accounting for imprests.

ii. A comprehensive imprest register should be opened for all the staff members who at one time or the other hold imprest.

iii. Imprests should be issued on proper authority and clear purpose to avoid misallocation of funds by unscrupulous officers in the County.

iv. Imprests should be voted on correct account codes so that the expenditure remains within the ambit of a vote as defined by the Financial Regulations and Procedures.

v. Imprests should be surrendered on the stipulated dates on completion of the task for which they were issued properly supported and in case of any unspent amounts, a receipt issued.

vi. No officer should hold more than one imprest at the same time; earlier imprests should be surrendered before new ones are issued.

2.0 NON-CURRENT ASSETS

2.1 Movable Assets

The fixed assets register availed for audit verification was not updated so as to include all the assets taken over from the defunct local authorities and those acquired in the period under review.

Of interest to us especially was a motor grader KBQ 114D financed using a loan from Co-operative Bank and is grounded at Loitokitok. A mechanical report for the grader was not availed for audit verification.

This is contrary to the requirements of Paragraph 147 of the Public Finance Management Act, which provides for the role of the accounting officer as among other things. (a) promoting and enforcing transparency, effective management and accountability with regard to the use of finances/goods.

2.2 Immovable Assets

Records availed to us indicated that the defunct local authorities had fifty four (54) parcels of land, which has no ownership documents. The source of the sizes and values ascribed to the parcels was not clear while the acreage and values for others was unknown at the time of the audit.

Further, included in the parcels of land are five parcels with a combined acreage of 428.27 acres and a value of Kshs.301,053,000, which appeared to be National Government land as they related to the National park.

2.3 Biological Assets

It was observed that twenty six (26) heads of cattle, had been disposed off at the demo farm in April 2014 but had not been collected at the time of the audit. These included fourteen cows, five heifer calves, five bulling calves and two bulls. Payment for some was full while others were partly paid for. No reason was given for the continued stay of the disposed animals and no written memorandums of understanding were seen for those partly paid for.

The County Government is taking care and incurring costs on animals owned by third parties without any written agreements on the terms and conditions for safe custody and maintenance of the animals and responsibility for the related costs.

Recommendation

i. The fully paid for animals should be released to their owners and the outstanding balances should be demanded from the purchasers without further delay before the animals are similarly released.

ii. Alternatively, the owners should be asked to pay for the animals up keep which was not happening at the time of our audit.

2.4 Refurbishment/Repair of Buildings

Several buildings were refurbished during the financial year under review. Of interest to the audit team was the refurbishment of the Governor's and his deputy's residences at a cost of Kshs.35,813,526 and that of the Public Service Board office block and perimeter chain link at Kshs.10,886,768. However, this was done without due consideration to the status of ownership of the buildings. In the circumstances, it was not possible to confirm that the renovated buildings belonged to the County Government.

Recommendations

i. Due diligence should be observed at all times before undertaking projects involving public funds to ensure there is value accruing to the public from the use of such funds.

ii. The management should avail contract agreements for the leases entered into between the owners of the buildings and the County Government which specifies the terms and conditions for the refurbishment of the buildings.

3.0 NON-CURRENT LIABILITIES

3.1 Long Term Loan

Audit of the County Government's liabilities indicated that a loans register or any other details in respect of loans advanced to the defunct local authorities and inherited by the County Government was not maintained and presented for audit verification. This is despite coming across an amount of Ksh.7 Million paid to Cooperative Bank of Kenya as a loan repayment in the period under review. There was no evidence of any authority obtained contrary to provisions of paragraph 142 of the Public Finance Management Act, 2012 which provides inter alia that,

- The County Executive may authorize short term borrowing by county government entities for cash management purposes only.

- Further, Paragraph 153 of the same Act vests the responsibility of management of the assets and liabilities to the accounting officer of a county Government

Under the circumstances it was not possible to confirm the propriety of the repayments during the year.

Recommendation

i) All borrowings made by the County Government should be in strict compliance with the requirement of the Public Finance Management Act, 2012 and all other regulations.

ii) Complete records of loans should be maintained properly to avoid any disputes and or litigation with the financiers in future.

4.0 CURRENT LIABILITIES

4.1 Sundry Creditors

The County had not prepared a comprehensive listing/inventory of sundry creditors including those inherited from the defunct local authorities as to reflect the total liability position at the time of our audit. It was not possible to confirm the liabilities due to third parties from the County Government due to lack of proper documentation.

The County Government is not planning for its cash flows in the absence of comprehensive records on those who it owes.

Recommendation

The County Government should compile and maintain a properly supported sundry creditors' and a register for records and payment when the debts fall due.

4.2 Pending Bills - Kajiado Level 4 Hospital

It was noted that the hospital management had incurred expenditure amounting to Kshs.4,063,291 relating to non-pharmaceuticals and other sundry stores without the necessary authority.

Although the items were properly received in the records and accounted for, there was no Authority to Incur Expenditure contrary to Section 5.5.1 of the Government Financial Regulations and Procedures, which prohibits spending or committing of funds until an authority in form of Authority to Incur Expenditure (AIE) has been received. The huge debt may deter the suppliers from supplying goods and services on credit to the hospital in future thus requiring the management to make cash purchases.

The procurement procedures used to procure the goods and services are inappropriate and contrary to the Public Procurement and Disposal Regulations, 2006 and value for money may not be received.

Recommendation

i) Management should allocate funds to clear the pending bills and also ensure that in future adequate funds are allocated to cater for the items involved.

ii) All expenditure should be incurred with strict compliance with the provisions of existing Government Financial Regulations and Procedures.

5.0 EXPENDITURE

5.1 Procurement of ICT Equipment and Mobile Phones

During the period under audit the County Executive procured phones valued at Kshs.2,490,000. However, their details were not taken on charge in the S3 cards and hence it was not possible to verify their status and locations at the time of the audit.

In addition, the items were supplied at different prices for example on 11 March 2014, 17 no. Samsung Galaxy Note III were procured at Kshs.90,000 each while on 10 April 2014, 7 no. of similar items at Kshs.80,000 each. The two prices are beyond what is allowed by the Office of the President circular; Cabinet Office Circular Ref: OP/CAB/15 of 5th March 2010, which limits the cost of mobile phones to be issued to Ksh.30,000 and to accounting officers only for economic utilization and efficient delivery of telephone services in the public service.

Further, no users requisitions were availed for audit verification hence the need for the expenditure was not supported

There is no policy on the purchase and issuance of devices such as ipads, phones, and laptops hence accountability for the same cannot be guaranteed and consequently this exposes public funds to loss.

Recommendation

i. Procurement for goods using public funds should follow the requirements of the existing laws and regulations to ensure there is efficiency, economy and value for money is realized at all times.

ii. A policy on the use of mobile phones should be put in place and implemented.

5.2 Procurement of Legal Services

During the period ended 30 June 2014, the County Government incurred legal fees amounting to Kshs.12,104,950. However, records to support the basis of these payments including written instructions, any contracts which may have been signed between the law firms and the employer and payment vouchers in respect of these payments were not availed for audit verification.

Further, documents to show how the service providers were requisitioned for, identified and contracted were also not availed.

This is contrary to regulations 22(1), 22(4) 25(3), 20(1), 26(3) (a), 10(b and c) of Public Procurement and Disposal Regulations of 2006, Section 68(3) of Public Procurement and Disposal Act of 2005, Attorney General circular of 3rd May 2010 and the Presidency circular Ref: OP.CAB.39A dated 17th June 2014 on Engagement or appointment of private law firms or lawyers to represent the Government.

Under the circumstances, it was not possible to confirm the propriety of the expenditure of Kshs.12,104,950 in absence of supporting documentation.

Recommendations

i. Payments for legal fees should always be made according to existing government rules and regulations.

ii. Payments for legal fees should always be supported by sufficient documentation to confirm the purpose of the payment and how the amount has been arrived at.

5.3 Double Payment to a Firm

Examination of payment vouchers and bank statements revealed that a firm was double paid for the same services and using the same documents.

This was done through payment voucher No. 3429 of 31 March 2014 for Ksh.500,000 was paid by the bank on 1 April 2014 vide original LPO no. 2126824, which had been authorised on 31 March 2014. Using the same documents, another payment voucher, which was not numbered was prepared on 4 April 2014 for Kshs.500,000, and the payment cleared through the bank on 7 April 2014 vide triplicate LPO and authorised on 6 April 2014.

Further, there was no user requisition for the incurrence of this expenditure or documents attached to support the reason for this payment other than the description in the LPO indicating full board accommodation from 26th to 31st December 2013.

The double payment is an indication of a weak internal control system and laxity on the part of officers processing payments. This reflects opportunities for fraudulent activities contrary to existing laws and regulations.

Recommendations

i) The overpayment should be recovered and in addition, users should be involved in all procurement of goods and services

ii) The County Executive should adhere to existing government financial regulations and procedures and the Public Finance Management Act, 2012.

5.4 Misapplication of Emergency Funds

The County Government spent Kshs.587,076 on the repair two motor vehicles belonging to the Olkejuado Water and Sanitation Company after they had been vandalized prior to the repairs using emergency funds. However, the existing regulations on the use of emergency funds do not support such expenditure since it is well catered for under the maintenance budget.

In addition, the relationship between the County Government and the water company was not clarified to the audit team. It was therefore not possible to ascertain how the expenditure was authorized and incurred.

Further, our examination of the emergency fund expenditure indicated that there were other expenses which ought to have been catered for under other line items and not the fund e.g. payment of sitting allowances and repair of boreholes totalling Kshs.3,472,894.

This is in disregard to the Public Finance Management Act, 2012 paragraph 110(2), which states that 'The purpose of an emergency fund is to enable payments to be made in respect of a county when an urgent and unforeseen need for expenditure for which there is no specific legislative authority arises and Paragraph 112 of the same Act.

Recommendations

i) The emergency fund should only be used to meet expenditure which qualifies as per the requirements of the Public Finance Management Act, 2012.

ii) The management should ensure that any money irregularly appropriated from the emergency fund is credited back.

5.5 Payment Vouchers not presented for audit review

Payment vouchers for expenditure amounting to Kshs.90,009,210 were not availed for audit verification**.**

Under the circumstances, it was not possible to confirm whether the payments amounting to Kshs.90,009,210 were made for the public good and whether they were made for services rendered as required by the Government Financial regulations and procedures and the Public Finance Management Act 2012 paragraph 79 which provides for safeguarding of public resources by officers and limits their use to what has been authorized.

Recommendation

Management should maintain proper documents for future review as and when required.

5.6 Unsupported Payment Vouchers

Examination of payment vouchers for the period under review revealed unsupported payments amounting to Kshs.10,224,569. These amounts were a sample of the whole expenditure population in the year.

Some of these expenditures related to travelling costs where details of travel were not disclosed, copies of passports and boarding passes were not availed and attached to the payment vouchers, purpose of the journey was not indicated and therefore no confirmation that the journey took place in the first place.

Payment vouchers were not properly coded and posted in the cashbook as required by Government Financial regulations and procedures.

Under the circumstances, the propriety of the expenses incurred could not be verified.

Recommendation

The management should ensure that, all payment vouchers are supported with relevant documentations and properly kept for further future review.

6.0 PROJECTS

6.1 Planning and Prioritization

A sample of projects examined revealed that planning and execution was done without due regard to value addition to the lives of the taxpayer. This was exhibited by the fact that, projects were planned and executed in such a manner that only a portion of the entire project is completed arguably for the purpose of spreading development to all the corners of the county.

However, since the funds available are limited, the county has ended up with a proliferation of so many incomplete projects which have no value to the community they were supposed to serve e.g. so many boreholes drilled and capped and construction of a computer lab without power points (Isinya Polytechnic) instead of doing a few projects/phases to completion with the available resources.

Although some works were completed in accordance with the provisions of the related contracts, the same may not have any positive effect on the lives of the community due to their incompleteness.

Recommendation

Management should ensure that projects are prioritized so that they can have an impact on the lives of those they are supposed to serve.

6.2 Project Payments

Payment vouchers were not fully supported by measured works and schedule detailing the percentage of completion and amount payable as required.

It was therefore not possible to confirm the percentage of completion and the propriety of the payments in the absence of measured works.

Recommendation

Management should ensure that all payments are supported with the relevant documents.

6.3 Project Files/Record Keeping

It was observed that the project files provided for audit review did not contain important information like; amount spent at a particular time, procurement procedures used to select the contractor, certificates at specific predetermined stages of the contract (percentage of completion) from the District Works Officer certifying the works completed and payable, bills of quantities, minutes of the monitoring and evaluation committee, architectural drawings, project approvals by the relevant authorities, i.e. drilling authorization, hydrological and bacteriological reports for boreholes etc.

In addition, it was noted that monitoring and evaluation of projects is done on an adhoc basis since there is no plan for the same in place. Further, it was also noted that some projects have more than one file.

In absence of relevant documents, it was not possible to confirm the details of the County's projects' status in. In addition, there is a possibility of overpayment where a project has more than one file.

Recommendation

Management should ensure that all the relevant supporting documents are placed in the project files for audit verification.

7.0 IT INTERNAL CONTROL ENVIRONMENT

The Control Objectives of Information Technology (COBIT) business processes require organizations to perform the following in respect of their IT internal control environment:

i) Manage the IT investment;
ii) Communicate management aims and direction;
iii) Manage IT Human resources;
iv) Manage quality;
v) Manage projects;

vi) Manage changes;
vii) Define and manage service levels;
viii) Manage third party services; and
ix) Monitor and evaluate IT performance.

Our audit showed that the County does not have an up to date IT policy to enable it to manage business processes for the delivery of services to the public in an effective and efficient manner.

This state of affairs may lead to:

i) Loss of information.
ii) Irregular activities taking place/ loss of electronic data.
iii) Access of confidential information by unauthorised persons.
iv) Unauthorised changes to information.
v) Inappropriate decisions regarding IT investments.
vi) The IT operations may not be effectively managed and aligned to support the operations of the County.
vii) Loss of ICT assets without trace due to lack of a comprehensive ICT inventory.

Recommendation

It is recommended that the County should have an up to date IT policy to address the key issues regarding the IT control environment identified above.

8.0 HUMAN RESOURCE

Our review of records maintained by the County Public Service Board revealed that there was no approved human resource establishment document for the County Government in place at the time of the audit.

There was notable idle capacity especially from the devolved functions, e.g. procurement officers in hospitals and field officers in agriculture while other departments visited did not have enough and qualified personnel, for example goods stores. It was not possible to confirm whether the posts were within the approved human resources establishment. Idle capacity may breed discordant behaviour in the long run.

There are no policy documents on payment of allowances. It was observed that some officers were paid per diems at different rates for same officers. Further, it was noted that officers were being paid night outs even when they had not been out for a night from their station. In absence of a policy document on such payments, it was not possible to confirm the propriety of the per diem allowances.

Recommendations

i) Management should ensure that an approved human resources establishment policy document is put in place.
ii) Management should also ensure that all staffs in the county are put to good use to avoid paying staff which is not productive and breeding behavior which will not be easy to change.

iii) Policy documents on payment of allowances should be developed and implemented.

9.0 REVENUE AND OTHER RESOURCES

During the year under review the County had an internally generated revenue of Kshs.442,882,905 against a budget of Kshs.468,483,477. However, a review of records and activities relating to revenue revealed that mapping out of revenue and other resource areas in the county had not been done as at the time of our audit.

The County Government cannot therefore put in place mechanisms to raise revenues and locate other resources due to it in the absence of a clear road map.

This contravenes the requirements of paragraph 104 (1) of the Public Finance Management Act, 2012, which provides that; 'subject to the Constitution, a County Treasury shall monitor, evaluate and oversee the management of public finances and economic affairs of the county government including:-

- Developing and implementing financial and economic policies in the county;

- Preparing the annual budget for the county and coordinating the preparation of estimates of revenue and expenditure of the county government;

- Co-coordinating the implementation of the budget of the county government;

- Mobilizing resources for funding the budgetary requirements of the county government and putting in place mechanisms to raise revenue and resources;

- Assisting county government entities in developing their capacity for efficient, effective and transparent financial management.

Recommendation

Management should map out revenue and resource areas in the county and put in place mechanisms to mobilize resources for funding the budgetary requirements so as to avoid these shortfalls in future.

10.0 EXPIRED DRUGS - KAJIADO LEVEL 4 HOSPITAL

Records provided indicated that the hospital had an un-quantified amount of expired drugs and non-pharmaceutical items of undetermined value in its stock. However, the hospitals management did not have an action plan in place on the disposal of the items at the time of the audit.

The items have taken up a lot of space which should have otherwise been used to store other usable stocks.

There is likelihood of the items being off loaded in the market should they fall in the hands of unscrupulous people thus posing a danger to the society.

Recommendation

The items should be disposed of as they expire without any delay to avoid the dangers they may pose to the society.

11.0 INTERNAL CONTROL

11.1 Internal Audit

The following weaknesses were identified regarding the functioning of the internal audit unit:

i) The scope of internal audit function did not include evaluating and reporting on internal controls applicable to high risk areas as identified by management.

ii) Audits for the financial year in the Annual Audit Plan were not finalised.

iii) Although progress audit reports conducted during the year were made available for audit, responses from management on the issues raised were not availed for audit verification, implying that issues raised had not been addressed.

iv) Internal audit unit is understaffed and does not have staff with necessary competencies to carry out the internal audit function effectively.

v) The County management did not present for audit a written provision from the accounting officer providing the unit unrestricted access to all records and assets of the County.

vi) There is no confirmation that an internal audit charter exists.

vii) There is no confirmation that internal audit reports are directly submitted to the audit committee for review.

viii) There is a risk that cases of errors and or may go undetected in absence of a fully functioning internal audit unit which may lead to risk of malpractices,

improper recording of transactions, loss of assets and non-adherence to internal controls.

ix) The audit reports may never be acted up on in the absence of an audit committee review.

x) This is contrary to Treasury Circulars and the Public Finance Management Act, 2012 and Regulations, which require government entities and other institutions to have an effective internal audit function.

Recommendations

i) It is recommended that the County Government allocates enough resources to the internal audit unit so as to improve its capacity to carry out its mandate.

ii) The County management should ensure that the internal audit unit functions are separated from the operations of the County Government and that there is written provision from the accounting officer providing the unit unrestricted access to all records and assets of the County.

iii) The County management should also ensure that an internal audit charter is put in place for the smooth functioning of the unit.

iv) The County management should further ensure that the internal audit reports are directly submitted to the audit committee for review.

Edward R.O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

25 May 2015