REPUBLIC OF KENYA

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL OPERATIONS OF EMBU COUNTY ASSEMBLY

FOR THE PERIOD 1 JULY 2013 TO 30 JUNE 2014

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EXECUTIVE SUMMARY

Introduction

The Office of the Auditor-General has the mandate to audit and report on the accounts and financial operations of both 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 Assembly were reliable for the Management of the County's finances in the delivery of service to the county 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.
- Mortgage Scheme Fund
- Imprests and advances
- Cash and bank balances
- Human Resource Records
- Car Loan Scheme
- Non-current assets
- Creditors

Key Audit Findings

1.0 Lack of Procurement Plan

The County Assembly of Embu did not prepare an annual procurement plan as required by the Public Procurement and Disposal Regulations, 2006. This led to haphazard procurement of items, especially furniture from various suppliers during the months of April and May 2014.

No explanation was given for failure to prepare the annual procurement plan as required by the procurement regulations.

2.0 Irregular Procurement of Furniture – Kshs.1,783.500

The Embu County Assembly invited quotations for supply of various types of furniture and eight firms responded. The tender was awarded to the lowest responsive bidder at a cost of Kshs.2,275,332. The assembly therefore exceeded the set threshold for quotations which is set at Kshs.2,000,000.

3.0 Unsupported Expenditure

The County Assembly paid travelling and subsistence allowances totaling Kshs.1,783,500 to Members of the County Assembly (MCA's) and members of staff during the period under review. However, the expenditure was not supported

4.0 Foreign travelling Expenses

The County Assembly paid Kshs.4,409,735 to the Budget and Appropriation Committee members in respect of the budget and appropriation training at KCA University, South Africa. However, as at the time of audit, the committee had not prepared and tabled the report to the County Assembly to justify the trip to South Africa.

Further, it was not indicated how the KCA University was identified to provide the training.

5.0 Operationalization of Ward Offices

The County Assembly budgeted for and financed the operations of twenty (20) Ward Offices within Embu County at a cost of Kshs.24,185,166. However, there were no approved salary structures, grading and job descriptions for the appointed officers.
The recruitment was not conducted by the County Assembly Service Board as required but instead the recruitment was carried out by the Members of the County Assembly (MCA's) and therefore it was not possible to establish whether the positions were competitively sourced.

6.0 Embu County Assembly Car and Mortgage Scheme

6.1 Mortgage Scheme Fund

In exercise of the powers conferred by section 116 of the Public Finance Management Act, 2012 and with the approval of the County Executive Committee and the County assembly, the County Executive member for finance established the Embu County Assembly Members (Mortgage Scheme Fund) through Legal Notice number 1.

However, no bank statements were made available for audit to confirm the dates the funds were disbursed and the actual amount disbursed.

Further, Copies of the design of the proposed residential property duly approved by the County Government, Bill of Quantities in respect of the proposed development, an official search of the title to the property intended to be purchased and a certified copy of the sale agreement relating to the property were not made available for audit.

In addition, it was observed that some members may not be able to service the loans as required by section 14(2) of the regulations which requires the loan to be repaid by check off from the Member's salary as it was observed that the loan repayments were higher than net pay drawn by the MCA's.

6.2 Car Loan Scheme

In exercise of the powers conferred by section 116 of the Public Finance Management Act, 2012 and with the approval of the County Executive committee and the County Assembly, the County Executive member for finance, established the County Assembly Car Loan Members Scheme Fund on 20 March 2014 through Legal Notice number 2. The board signed an agreement with Family Bank Limited on 16 June 2014 pursuant to section 16 of Embu County Assembly Members (Car Loan Scheme Fund) regulations 2014.

However, bank statements were not made available for audit in order to establish the amounts disbursed. Further, copies of logbooks were not made available for audit to confirm whether the vehicles were registered jointly between the County Assembly of Embu and the member of the scheme as required by section 9(2) of the Embu County Public Finance (County Assembly Car Loan (Members) Scheme Fund regulations 2014.

7.0 Irregular Staff Placement

The County Assembly Service Board established offices in the county assembly through board paper number 2. The establishment placed the Senior Sergeant at Arms at salary scale CASBE 9. However, a scrutiny of the appointment letter Ref: CAE/ST/2/54/3 dated September 2013 and the payroll indicated that a Senior Sergeant at Arms was appointed in salary scale CASBE 8 contrary to the staff establishment which placed the Senior Sergeant at Arms at salary scale CASBE 9.

8.0 Creditors and Payables

The County Assembly did not keep any record of creditors such as creditors' ledger or creditors register.

9.0 Non Current Assets

The County Assembly did not maintain a fixed asset register, further, the County Assembly relies on the fixed asset Register that was for the defunct County Council of Embu.

Edward R.O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

21 May 2015

Detailed Audit Findings and Recommendations

The audit findings and recommendations which were identified during the course of the audit are detailed below.

1.0 Lack of Procurement Plan

The County Assembly of Embu did not prepare an annual procurement plan as required by the Public Procurement and Disposal Regulations, 2006. This led to haphazard procurement of items, especially furniture from various suppliers during the months of April and May 2014.

No explanation was given for failure to prepare the annual procurement plan as required by the procurement regulations.

Management failed to adhere to the procurement regulations.

Recommendations

An annual procurement plan should be prepared in line with the Public Procurement and Disposal Regulations, 2006.

2.0 Irregular Procurement of Furniture

The Embu County Assembly invited quotations for supply of various types of furniture and eight firms responded. The tender was awarded to the lowest responsive bidder at a cost of Kshs.2,275,332. The Assembly therefore exceeded the set threshold for quotations which is set at Kshs.2,000,000

No explanation was given for failure to adhere to the procurement regulations.

Recommendation

The County Assembly should ensure compliance with the legal notice in all future procurements on open tenders.

3.0 Unsupported Expenditure

The County Assembly paid travelling and subsistence allowances totaling Kshs.1, 783,500 to Members of the County Assembly (MCA's) and members of staff during the period under review. However, the expenditure was not properly supported by either bus tickets or work tickets and therefore no documentary evidence was available to confirm the journeys were undertaken.

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

Recommendations

- All payments should be properly supported in line with the Government Financial Regulations and Procedures.
- The County Assembly should exercise prudence when paying travelling allowances.
- Any unssuported/unaccounted for payments of Kshs.1,783,500 should be recovered appropriately from the responsible MCA and members of staff.

4.0 Foreign Trips expenses

The County Assembly paid Kshs.4,409,735 to the Budget and Appropriation Committee members in respect of the budget and appropriation training at KCA University, South Africa. The training entailed public finance, roles and responsibility of the budget committee, cash flow management among others. The total per diem paid was Kshs.1,538,735, facilitation fees of Kshs.1, 409,400 while the cost of the air tickets was Kshs.1,461,600. The breakdown of the payments is as shown below:-

Date	Chq no.	Pv no.	Payee	Amount (Kshs)	Details
04/03/14	741	CAE/APRIL14/57	NATIONAL BANK	108,889	Per Diem
04/03/14	740	CAE/APRIL14/58	BARCLAYS BANK	217,778	Per Diem
04/03/14	739	CAE/APRIL14/59	CO-OP BANK	892,316	Per Diem
04/03/14	742	CAE/APRIL14/61	EQUITY BANK	319,752	Per Diem
04/03/14	743	CAE/APRIL14/62	KCA UNIVERSITY	900,000	Facilitation fees
04/03/14	744	CAE/APRIL14/62	KCA UNIVERSITY	509,400	Facilitation fees

05/08/14	JUMBO	CAE/MAY14/126	UNIGLOBE NORTHLINE	1,461,600	Air ticket
		Total Paid		**4,409,735**	

However, as at the time of audit, the committee had not prepared and tabled the report to the County Assembly to justify the trip to South Africa. Further, it was not indicated how the KCA University was identified to provide the training.

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

Recommendations

- The amount of Kshs.4,409,735.00 should be recovered from the beneficiaries.
- The back to office report should be prepared and be tabled in the assembly for adoption for the benefit of the County residents.
- There should be value for money on any foreign trip expenditure from public funds.

5.0 Operationalization of Ward Offices

During the financial year 2013/2014, the County Assembly budgeted for and financed the operation of twenty (20) Ward Offices within Embu County. Consequently, eighty seven (87) ward officers were appointed by Members of the County Assembly to hold various positions. Twenty (20) offices were leased in various wards and as a result, the following expenses were incurred:-

Item	**Amount (Kshs)**
Staff Salaries	11,856,000
Ward Offices Rent	4,962,948
Ward Operations	7,366,218
Total	**24,185,166**

However, it was observed that there were no approved salary structures, grading and job descriptions for the appointed officers. Further, the recruitment was not conducted by the County Assembly Service Board as required but instead the recruitment was carried out by the Members of the County Assembly (MCA's) and therefore the positions were not competitively sourced.

The functions of the ward offices were not clear as there were no regulations or bill approved to guide their operations. In addition, there was no documentary evidence to show that the salaries of the employees were set by the Salaries Remuneration Commission as required by article 230(4) of the Constitution.

Among the recruited staff were drivers, though the County Assembly does not have any motor vehicles assigned to the MCA's and it would therefore appear the drivers were recruited as personal drivers for the MCAs.

Further, it was noted that the MCA's had other offices in Embu town provided by the County Assembly and it was therefore not clear why twenty more offices were leased.

In the circumstances, the expenditure of Kshs.24,185,166.00 being operational expenses for wards may not have been used in an economical, effective and efficient way.

Recommendations

- All unsupported/irregular ward offices expenses of Kshs.24,185,166.00 should be recovered appropriately.

- The County Assembly should have regulations governing the operationalization of the ward offices.

- The salaries approved by the Salaries and Remunerations Commission should be paid to officers appointed by the County Assembly.

- Since the Members of the County Assembly are already provided with offices in Embu town, the budgetary allocation should be minimized to prudent levels as it was observed that some ward offices have up to five (5) members of staff whose duties were not clear.

6.0 Embu County Assembly Members Car and Mortgage Scheme

6.1 Mortgage Scheme Fund

In exercise of the powers conferred by section 116 of the Public Finance Management Act, 2012 and with the approval of the County Executive Committee and the County assembly, the County Executive member for finance established the Embu County Assembly Members (Mortgage Scheme Fund) through legal notice number 1. The board signed an agreement with Family Bank Limited on16 June 2014 pursuant to section 7 of Embu County Assembly Members (Mortgage Scheme Fund) regulations 2014.

During the period under review, the County Assembly made a budgetary provision of Kshs.99,000,000 to create a mortgage fund as per Legal Notice number 1. According to a schedule made available for audit, the bank had already disbursed a total of Kshs.39,410,000 to Members of the County Assembly. However, no bank statements for

Family bank account Number 075000028013 were made available for audit to confirm the dates the funds were disbursed and the actual amount disbursed.

In the circumstances, it was not possible to establish the total amount deposited in the mortgage fund account.

Further, Copies of the design of the proposed residential property duly approved by the County Government, Bill of quantities in respect of the proposed development, an official search of the title to the property intended to be purchased and a certified copy of the sale agreement relating to the property were not made available for audit.

In addition, there was no evidence of charging of properties acquired through loans from the Fund to protect the interests of the fund.

It was also observed that some members may not be able to service the loans as required by section 14(2) of the regulations which requires the loan to be repaid by check off from the Member's salary as the loan repayments were higher than net pay. Further, Section 16(7) of the regulations states that; notwithstanding the provision of this regulation, the board may authorize such loan terms for Members of the First assembly as may be necessary to actualize this scheme. However, nothing under this section allows disbursement of loans from the fund for other purposes other than the purchase of residential property for the Members of the County Assembly.

In the absence of the bank statements, copies of the design of the proposed residential property duly approved by the County Government, bills of Quantities in respect of the proposed development, an official search of the title to the property intended to be purchased and a certified copy of the sale agreement relating to the property, it was not possible to confirm that the said loans were applied for the intended purposes.

Recommendations

- The officer administering the fund should ensure security of the funds is guaranteed by ensuring the mortgage institution complies with the regulations.
- The signed agreement and the supporting documents should be made available for audit review.
- The properties acquired under the scheme should be charge appropriately.
- The mortgage scheme fund repayments should be recovered as per the agreement signed to minimize risk of loss of funds.

6.2 Car Loan Scheme

In exercise of the powers conferred by section 116 of the Public Finance Management Act, 2012 and with the approval of the County Executive committee and the County assembly, the County Executive member for finance, established the County Assembly Car Loan Members Scheme Fund on 20 March 2014 through Legal Notice number 2. The

Board signed an agreement with Family Bank Limited on 16 June 2014 pursuant to section 16 of Embu County Assembly Members (Car Loan Scheme Fund) regulations 2014. Subsequently, the County Assembly transferred through RTGS Kshs.66,000,000 vide payment voucher number CAE/MAY14/1182 being funds appropriated for the fund in financial year 2013/2014. According to a schedule made available for audit, the bank had already disbursed a total of Kshs.62,000,000 to the Members of County Assembly. However, bank statements for account Number 075000028013 maintained at the Family bank were not made available for audit in order to establish the amounts disbursed. Further, copies of logbooks were not made available for audit to confirm whether the vehicles were registered jointly between the County Assembly of Embu and the member of the scheme as required by section 9(2) of the Embu County Public Finance (County Assembly Car Loan (Members) Scheme Fund regulations 2014.

In addition, no valuation reports were made available to determine whether section 10 (1) of the regulations was complied with which requires the loan amount of the car to be equivalent to the value of the car.

In view of the above, it was not possible to confirm whether the loans were applied for the intended purposes.

Recommendations

- The officer administering the fund should ensure that security of the funds is guaranteed by ensuring the Financial Institution complies with the regulations.
- The signed agreement and the supporting documents are made available for audit review.
- The vehicles purchased under the loan scheme should be jointly registered.
- Loanees who do not comply with the fund regulations should attract loan recoveries from their salaries.

7.0 Irregular Staff placement

The County Assembly Service Board established offices in the county assembly through board paper number 2. The establishment placed the Senior Sergeant at Arms at salary scale CASBE 9. However, a scrutiny of the appointment letter Ref: CAE/ST/2/54/3 dated September 2013 and the payroll indicated that the Senior Sergeant at Arms was appointed in salary scale CASBE 8 contrary to the staff establishment which placed the Senior Sergeant at Arms at salary scale CASBE 9.

No explanation was given for appointing the Senior Sergeant at Arms at a different salary scale from the approved one.

Recommendations

- The County Assembly should place the officer at the correct job scale as per the staff establishment.
- Pay appropriate salary in compliance with the County Government Act, 2012.
- Recover the irregular payment from the Accounting officer.

8.0 Creditors and Payables

The County Assembly did not keep any record of creditors such as Creditors ledger or creditors register. In the circumstances, it was not to establish transactions relating to the creditors.

No explanation was given for failure to maintain a creditor's ledger.

Recommendation

- The County Assembly should maintain creditors' ledgers to record creditor's transactions.

9.0 Non-Current Assets

The County Assembly did not maintain an updated fixed assets register that would show details of year of asset acquisition and mode of financing. The County Assembly still relies on the fixed asset Register that was for the defunct local Authority. It was further noted that:-

i. The County Assembly does not have in place policies and procedures governing asset management.

ii. The County assets are not coded.

iii. Non-Current assets are not physically inspected on a regular basis.

iv. Assets from the defunct local authorities are not fully included in the asset register.

No explanation was given for failure to maintain a fixed assets register as required under the Public Finance Management Act 2012.

Recommendations

- The County Assembly should put in place adequate systems and processes in order to plan for, procure, account for, maintain, store and dispose of assets, including an asset register that is current, accurate and available in compliance with Section 147. (1) Of the Public financial Management Act,

- Ensure that all assets are taken over and included in the Fixed Assets register. 2012.

10.0 IT Environment

The Assembly did not have in place any IT structures. They have not implemented the IFMIS or G-pay. All their operations were manual.

Recommendation

Management should put in place the IT systems to assist in proper administration and controls. This is also to comply with the Government policy on IT.

Conclusion

The County Assembly had challenges in its first year of operations in setting up structures, staffing and procurement process. However, these challenges should overcome by adhering to the Public Finance Management Act, 2012, the Public Procurement and Disposal Act, 2005 and Regulations 2006.

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Nairobi

21 May 2015