REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL OPERATIONS OF COUNTY ASSEMBLY OF KILIFI

FOR THE PERIOD 1 JULY 2014 TO 30 JUNE 2015

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

EXECUTIVE SUMMARY

Background Information

The Constitution of Kenya, 2010, under Article 176, created the County Governments which consist of the County Assembly which is the Legislative arm of the County Government consisting of the Speaker and Members of County Assembly (elected and nominated). The Kilifi County Assembly which is domiciled in Malindi Town has 35 elected and 19 nominated Members all totaling fifty-four (54).

Introduction

This management and financial operations audit report covers the period 1 July 2014 to 30 June 2015. The audit was undertaken to assess the adequacy and reliability of the systems of management and financial control established by management of the County Assembly to run its affairs with emphasis on use of public resources.

Terms of Reference

The Office of the Auditor-General is an independent office mandated by the Constitution under Article 229 to audit the accounts of the National and County Governments. In this regard, the Office planned a management and financial operations audit of the County Assembly of Kilifi for the period 1 July 2014 to 30 June 2015 with the following audit objectives:

i. To assess controls over management of assets put under disposal of the County Assembly.

ii. To assess compliance with public procurement laws in process of purchasing goods and/or services.

iii. To assess compliance with the Public Finance Management Act, 2012 in use of public funds.

iv. To ascertain the integrity and reliability of financial and other information used by management in the use of public funds; and,

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

Methodology

The approach used in carrying out the audit included the following;

i. interviews with key officers at the County Assembly offices;

ii. review of applicable legislation and regulations;

iii. examination of payment vouchers and support documents, cash books, vote books, bank statements, bank-in slips, miscellaneous receipt books, procurement documents, stores records, asset records, asset registers and other related records;

iv. review of minutes of various meetings where there were resolutions regarding the utilization of public funds;

v. physical inspection and verifications;

vi. observation of processes and activities; and,

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 on Supreme Audit Institutions (ISSAIs). The standards require that an audit is planned and performed so as to obtain reasonable evidence that, in all material respects, expenditure incurred is fairly stated and all financial transactions are recorded.

The matters mentioned in this report are therefore those that were identified through tests considered necessary for the purpose of achieving the audit objectives and it is possible that there might be other matters and/ or weaknesses that were not identified. The formulation and maintenance of effective control measures and compliance with laws and regulations is the responsibility of the management. Our responsibility is to report on the weaknesses and non-compliance with laws and regulations identified in the course of the audit.

The sections below highlight key audit findings noted during the audit of the financial operations of the County Assembly of Kilifi for the year ended 30 June 2015.

KEY AUDIT FINDINGS

1.0 Budgetary Control and Performance Analysis

During the financial year 2014/2015, the County Assembly of Kilifi allocated a total of Kshs.630,715,933 to the Recurrent Vote and Kshs. 247,453,518 to Development Vote, which two allocations yielded a total budget of Kshs.878,169,451. The budget was absorbed as follows:

Items	Budget Allocation 2014/2015 Kshs.	Actual Expenditure 2014/2015 Kshs	Under Absorption Kshs.	Absorption %	As % of Total Expenditure
Recurrent	630,715,933	551,825,749	78,890,184	88	79
Development	247,453,518	148,451,308	99,002,210	60	21
Total	**878,169,451**	**700,277,057**	**177,892,394**	**80**	**100**

As the table shows the County Assembly did not utilize its development and recurrent vote allocations fully during the year under review. The under absorption was caused by failure to undertake some planned activities Failure by the County Assembly management to utilize budgeted funds curtailed the capacity of the MCAs to articulate issues that dear to the residents of Kilifi County and in turn hampered the County's development agenda.

1.1 Development Vote

Records made available for audit review indicated that the sum of Kshs.247,453,518 under the development vote was for the acquisition of non-residential buildings, purchase of (Information Communication Technology) ICT networking and communication equipments, acquisition of land and refurbishment of non-residential buildings. However, as at the end of the financial year, only Kshs. 148,451,308 had been spent, being a low absorption rate of 60% only. A breakdown of the development expenditure revealed the following budget lines/ votes were not spent at all:

Development Vote	Amount Voted (Kshs)
Purchase of(Information Communication Technology) ICT Networking and Communication Equipment	2,782,968
Acquisition of Land	30,000,000

Failure by the management to utilize budgeted funds erodes the effectiveness of the budget as the planning tool for the Assembly's programmes and activities intended to enhance the well-being of the citizens of Kilifi County.

1.2 Recurrent Vote

A breakdown of the recurrent expenditure during the financial year 2014/2015 revealed underspending in several budget lines as shown in the table below:

Item	Budget Amount(Kshs)	Actual Expenditure (Kshs)	Under Absorption (Kshs)	% Absorption	% Under Absorption
Recurrent		**Payments**			
Compensation of Employees	256,960,580	251,898,065	5,062,515	98	2
Use of Goods and Services	245,083,032	235,685,184	11,397,848	96	5
Acquisition of Assets	16,254,000	10,242,500	6,011,500	63	37
House Loans and Car Loans	112,418,321	54,000,000	58,418,321	48	52

As the table shows , house and car loan expenditure items recorded and an absorption rate below 50%, while under acquisition of assets, only 63% of allocated funds were spent Both items fared badly in comparison with others under the recurrent vote

Failure by the management to utilize budgeted funds hampers the capacity of the County Assembly to represent and advance the interests of the residents of Kilifi County and is likely to adversely affect development of the County.

2.0 Vote Book

Examination of the Vote book revealed that it was not updated periodically and further, vote book control certificates were not reflected on payment vouchers.

In the circumstances, the accuracy and validity of receipts, payments, expenditure commitments balances for the year under review could not be verified.

3.0 Imprest Management

Examination of records revealed that the Assembly used payment schedules to record imprests instead of issuing imprest warrants (F.O 24 Revised) as required for proper accountability. Further, examination of imprest records indicated that Officers were issued with additional imprests while still holding previous ones. In addition, the imprest register did not show the dates when the imprests were issued and further, due dates for surrender of the imprests and designations and personal numbers of the imprest holders were not shown on the register.

The management therefore failed to adhere to regulations pertaining to the issuance and accountability of imprests as outlined in Sections 5.6.5 and 5.6.6 of the Government Financial Regulations and Procedures.

4.0 Mileage Claims

Examination of travel expenditure revealed that the management paid Kshs.12,625,956 to members of the County Assembly in respect of mileage claims during the financial year 2014/2015. However, the payments did not conform to the Salaries and Remuneration Commission's (SRC) recommendations issued under Circular Ref. No. SRC/TS/CGOVT/3/16 of 27 November 2013 and as a result exceeded the limit set by

the Commission by Kshs.5,140,495. In addition, for ninety percent (90%) of the claims, the respective Members of the Assembly were not the registered owners of the vehicles cited in documents filed to support of the claims. Only copies of logbooks registered to other persons and affidavits claiming to have bought, leased or obtained consent to use the vehicles were attached to the payments vouchers which could be prone to abuse.

Consequently, the County Assembly failed to adhere to guidelines set by the Salaries and Remuneration Commission (SRC) on payment of mileage claims..

5.0 Domestic Travel

During the financial 2014/2015, examination of records presented for audit review indicated that the Assembly paid Kshs.8,440,137 to a tour and travel company in respect of domestic air travel for various journeys undertaken during the year. However, the respective invoices were not presented for audit to support the expenditure.

Consequently, the propriety and validity of the expenditure totaling to Kshs.8,440,137 incurred during the year under review could not be ascertained.

6.0 Pending Bills

Examination of records presented for audit review indicated that the Assembly had not settled pending bills amounting to Kshs.45,217,615 as at 30 June 2015. Further, scrutiny of documents presented for audit review showed that the County Assembly did not have a creditors' policy in place. In addition, the management failed to present an analysis of I the creditors' for audit. No explanation has been provided as to why the County Assembly did not settle its obligations as and when they fell due and why it did not have a documented policy on management of its creditors.

In view of these omissions, it was not possible to confirm the validity and completeness of pending bills balances totaling to Kshs.45,217,615 as at 20 June 2015.

7.0 Recruitment of Ward Staff

Human Resource records presented for audit review showed that the County Assembly recruited ward staff for Members of the County Assembly offices in various wards. However, documents to show how the staff was hired were not presented for audit verification contrary to Section 66 of the County Government Act, 2012 which requires that vacant positions be advertised for interested persons to apply.. Further, comparison of employees in various wards portrayed inconsistencies in the rates of payments.

In the absence of supporting documents on recruitment and the inconsistencies in the rates of salary payments to ward staff, the validity and propriety of the expenditure could not be ascertained.

8.0 Information Technology

Review of the Assembly's information technology environment during the financial year 2014/2015 revealed that the Assembly did not have an information technology (IT) strategic plan. It was further noted that data backups were not stored in a secure offsite storage facility but were instead retained in the ICT office. In case of fire or any cause of damage, recovery of the data would be highly jeopardized. In addition, it was noted that there were no formally documented and approved user management standards and procedures. Further, the County Assembly did not use IFMIS and G-Pay systems for financial transactions as required by Public Finance Management Act, 2012. The management was therefore in breach of the Law.

In the absence of an IT strategic plan and poor storage of backup data, the operations and safety of the County Assembly's crucial IT information have been put at risk. Further, lack of formally documented and approved IT user management standards and procedures hinder efficient and effective implementation of the technology. The management also failed to follow the guidance of the Public Finance Management Act, 2012 by not using IFMIS and G-Pay as required by the Act.

9.0 Internal Audit Committee

As at 30 June The audit further revealed that the County Assembly had as at 30 June 2015 not constituted an internal audit committee, contrary to requirements of Section 155(5) of the Public Finance Management Act, 2012. Audit committees play an important role in the governance framework of County Assemblies, particularly in the context of increased public sector accountability. Such committees have an independent role in advising the County Assembly on financial reporting processes, internal control, and risk management and audit matters.

By failing to establish the audit committee, the County Assembly failed to comply with the Public Finance Management Act 2012, Section 155 (5) and is in breach of the Law.

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

Nairobi

05 September 2016

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

DETAILED FINDINGS

1.0 Budgetary Control and Performance Analysis

The County Assembly of Kilifi budget for the financial year ended 30 June 2015 totaled to Kshs.878,169,451 comprised of Kshs.247,453,518 for the Development vote and Kshs.630,715,933 for the Recurrent Vote. The actual expenditure under the Development Vote was Kshs.148,451,308, therefore under-expenditure on the vote amounted to Kshs.99,002,210 equivalent to an absorption rate of only 60%of the respective budget. The total expenditure under the Recurrent Vote was Kshs.551,825,749 and this resulted to under-expenditure of Kshs.78,890,184 or an absorption rate of 87% of the recurrent budget.

Unspent funds denote lost opportunities for development and service delivery activities. Therefore failure by the management to utilize all funds budgeted during the financial year hampered delivery of quality of services and slowed down the County's development process.. In particular, the County Assembly, some services and facilities intended for use by the Members of the Assembly (MCA's) to represent and articulate important issues of interest to the residents of the County were not be purchased. .

1.1 Development Vote

An analysis of the development vote records indicated that the County Assembly did not incur expenditure on purchase of Information and Communication Technology (ICT) networking and communication equipment budgeted for at Kshs.2,782,968 and acquisition of land budgeted for at Kshs.30,000,000. Further, the County Assembly did not absorb all funds allocated to construction and refurbishment of non-residential buildings amounting to Kshs.71,000,000 and Kshs.143,670,550 respectively as shown in the table below:

Items	Budget Amount (Kshs)	Actual Expenditure 2014/2015 Kshs.	Under Absorption Kshs.	Absorption Rate	Under - absorption Rate
Development					
Non-Residential Buildings	71,000,000	28,439,454	42,560,546	40	60
Refurbishment of Non-Residential Buildings	143,670,550	120,011,854	23,658,696	84	16
Purchase of ICT Networking and Communication Equipment	2,782,968	-	2,782,968	100	0
Acquisition of Land	30,000,000	-	30,000,000	100	0
Total	**247,453,518**	**148,451,308**	**99,002,210**	**40**	**40**

Under-absorption of development funds denotes lost opportunities to deliver public services and create employment to the residents of Kilifi County.

Recommendation

The management should adhere to the requirements of the Public Finance management Act, 2012 for proper use and accounting for all voted funds. The County Assembly management should utilize all funds voted for use in development projects in each financial year. Also, officers responsible for implementing development projects and recurrent activities should be held liable for delays in execution of planned work.

1.2 Recurrent Vote

A breakdown of the recurrent expenditure budget for the year ended 30 June 2015 revealed the following expenditure patterns:

Items	Budget Amount (Kshs)	Actual Expenditure 2014/2015 Kshs	Under Absorption Kshs	Under Absorption Rate (%)	Absorption Rate (%)
Recurrent		**Payments**	**Total**		
Compensation of Employees	256,960,580	251,898,065	5,062,515	98	2
Use of Goods and Services	245,083,032	235,685,184	9,397,848	96	4
Acquisition of Assets	16,254,000	10,242,500	6,011,500	63	37
House Loans and Car Loans	112,418,321	54,000,000	58,418,321	48	52
Total	**630,715,933**	**533,633,849**	**78,890,184**	**87**	**13**

As the table indicates, none of the four (4) items budgeted-for under the Assembly's Recurrent Vote utilized all allocated funds by the end of the financial year on 30 June 2015. More precisely, under-absorption rates for House and Car Loans and Acquisition of Assets votes were 52% and 37% respectively.

Failure to utilize all budgeted funds allocated constrains provision of goods and services to the County Assembly which in turn adversely affects the capacity of MCAs to articulate and represent issues that are important to the residents of the County.

Recommendation

The management should spend all voted funds during the year as planned or obtain authority to reallocate unspent balances to other uses for the benefit of the residents of the County. Further for any funds not utilized as planned, the officers given responsibility to execute programmes and activities should be held liable and accountable and reprimanded as appropriate.

2.0 Vote Book

Examination of expenditure authorization records revealed that the Assembly's Vote book was not updated and vote book control certificate details were not reflected on payment vouchers. In the circumstances, validity and accuracy in recording of receipts, payments, expenditure commitments and payments could not be confirmed.

Recommendation

The management should update its Vote book regularly as required under Section 149(2) of the Public Finance Management Act, 2012 which stipulates that public entity managers keep proper financial and accounting records. Otherwise r the responsible officers should be held liable for the breaches of policy and regulations.

3.0 Imprests

Information available indicates that imprest amounting to Kshs.38,897,110 as detailed in **Appendix I** was overdue. Review of imprest records presented for audit revealed that the County Assembly management recorded imprests on payment schedules instead of issuing the holders with imprest warrant (F.O 24 Revised) for proper accountability. Further, the documents revealed instances of officers issued with additional imprests while still holding previous ones.. Further, the imprest register did not show the dates when the imprests issued were due for surrender or the designations and personal numbers of the imprest holders.

The County Assembly therefore failed to adhere to the provisions of Section 152 of Public Finance Management Act, 2012 on issuance and surrender of imprests and also Section 5.6.5 and 5.6.6 of the Government Financial Regulations and Procedures which requires every Officer holding imprest to account for or surrender the imprest within 48 hours after returning to his duty station and that to effectively manage and control the issue of temporary imprests the A.I.E holder should ensure that imprests are not issued to officers who have not surrendered previous ones.

Recommendations

The management should only issue temporary imprests as provided for in Section 5.6.5 and 5.6.6 of Government Financial Regulations and Procedures failure to which the accounting officer should recover the full amount from the salary of the defaulting officer. Imprest warrants (F.O. 24 Revised) should be used to issue imprest for proper accountability. Further, documentary evidence to support imprest surrenders amounting to Kshs.38,987,110 shown in records as having been made by various

Officers should be presented for audit review failure to which the imprests should be recovered from the respective officers.

4.0 Mileage Claims

Examination of payment vouchers and other records presented for audit revealed that the management paid a total of Kshs.12,625,956 to Members of the County Assembly in respect of mileage claims. However, the payments did not t adhere to the Salaries and Remuneration Commission's (SRC) Circular Ref. No. SRC/TS/CGOVT/3/16 dated 27th November 2013 which stipulates that the payments should be made at a standard AA rate of Kshs.109.80 per kilometer for up to a maximum of 45 kilometers return journey (90 Kilometers). Members whose areas of representation are beyond the 45 Kilometers limit are required to lodge weekly claims for additional distances travelled. The claims are to be made at the applicable AA rates based on the cubic capacity(c,c) of the respective vehicle per kilometer subject to a maximum of 52 weeks in a year". However, although the payments made referred to the engine-size (cc) of the respective vehicles and the distances covered, the amounts paid were not calculated based on the standard rate of Kshs.109.80 but at unapproved rates shown in **Appendix II** of this report. Analysis of mileage claims paid in the nine (9) months period to 30 June 2015 revealed that whereas the Members of the County Assembly were entitled to payments totaling to Kshs.7,485,461, they were paid a total of Kshs.12,625,956 thus resulting to an overpayment of Kshs, 5,140,495. No evidence was adduced to confirm that t excess payments were approved by the SRC..

In addition, the records presented for audit revealed that ninety percent (90%) of the MCA's were not the registered owners of the vehicles that they used to lodge claims. Attached to the claims were copies of unregistered logbooks, and affidavits claiming to have bought, leased or obtained consent to use the vehicles. This system is prone to abuse.

In view of these discrepancies, the propriety and validity of the payments totaling to Kshs.5,140,495 made in the year under review could not be ascertained.

Recommendations

The County Assembly should adhere to guidelines set by the Salaries and Remuneration Commission (SRC) on payment of mileage claims. In addition, the sum of Kshs.5,140,495 paid over and above the AA rates stipulated in SRC Circular Ref. No. SRC/TS/CGOVT/3/16 of 27 November 2013 should be recovered from respective MCAs

5.0 Domestic Travel

Examination of records made available for audit review indicated that the Assembly paid a total of Kshs.8,440,137 to a tour and travel company in respect of domestic air travel for various journeys undertaken during the year under review. However, invoices to support expenditures incurred were not presented for audit review.

As a result, the propriety and validity of the expenditures amounting to Kshs.8,440,137 for the year ended 30 June 2015 could not be ascertained.

Recommendations

The management should ensure that all expenditures adhere to Section 104(1) (k) of the Public Finance Management Act, 2012 which requires proper accountability of expenditure. The management should present for audit review documentation supporting the expenditure totaling to Kshs.8,440,137 reportedly incurred on domestic air travel failure to which the Officer responsible for authorizing the payments should be surcharged.

6.0 Pending Bills

Examination of records presented for audit review revealed that as at 30 June 2015, the County Assembly had not settled pending bills totaling to Kshs.45,217,615 as detailed in **Appendix III** of this report. However, the County Government of Kilifi's financial statements reflected a surplus of Kshs.957,086,042 for the year ended 30 June 2015.Had the pending bills totaling to Kshs.45,217,615 been paid on schedule, the surplus would have amounted to Kshs.911,868,427. In addition, the audit revealed that the County Assembly did not have a creditors' policy in place. In addition, the management did not present an analyses showing the ages of its creditor balances No explanations were provided for these omissions and discrepancies. In the circumstances, it was not possible to confirm the validity and completeness of the pending bills balance of Kshs.45,217,615 outstanding as at 30 June 2015.

Recommendation

The management should present for audit documents to support the pending bills totaling to Kshs. 45,217,615 reflected in its books as at 30 June 2015.Further, management should pay creditors in due time as provided for in the budget and document a creditors' management policy as without delay.

7.0 Recruitment of Ward Staff

Examination of personnel records presented for audit revealed that during the year under review the County Assembly recruited staff for Members of the County Assembly offices in various wards. However, documents to show how the staffs were hired were not presented for audit verification contrary to Section 66 of the County Government Act, 2012 which requires that vacant posts be advertised for interested persons to apply for the positions. Further, comparison of employees in various wards reflected inconsistencies in salary rates as detailed in **Appendix IV**. Failure to advertise for vacancies could make management liable for breach of policy on recruitment of staff. In addition, differentiated pay for identical cadres is likely to demoralize staff and result in poor performance and service delivery at Ward level.

Recommendations

The County Assembly should comply with laws and regulations on staff recruitment and pay failure to which officers responsible for the discrepancies should be held liable for breach of policy. The invalid differences in salary rates among Ward staff should be corrected without delay

8.0 Information Technology

Review of the Assembly's Information Communication Technology (ICT) environment revealed that the Assembly did not have an IT strategic plan to support the operational requirements of the County Assembly. Further, there were no documented and approved processes to manage upgrades and system changes made to all information systems. Also, backups were not stored in a secure offsite storage facility but were instead retained in the ICT office. In the event a fire accident or any cause of damage, the recovery of data would be highly jeopardized. In addition, there were no approved user management standards and procedures, documented schedules for routine maintenance, and, in addition, an IT Strategic Committee had not been put in place to oversee planning and implementation of the Assembly's ICT strategy. Further, it was noted that the Assembly management did not use IFMIS and G-Pay financial systems as required of all governments by the Public Finance Management Act, 2012.Therefore the management was operating contrary to the law.

Recommendations

The County Assembly should develop an IT strategic plan that supports its operations. In addition, the management should store data backups in a secure offsite storage facility and adopt IFMIS and G-Pay payment platforms as required by the Public Finance Management Act, 2012 failure to which the Accounting Officers should be held liable and accountable.

9.0 Lack of Internal Audit Committee

The audit further revealed that the County Assembly lacked an internal audit committee, contrary to Section 155(5) of the Public Finance Management Act, 2012. Ann independent audit committee in any organization is an important feature of good corporate governance. In Kenya, audit committees play a crucial role in the governance framework of County Assemblies, particularly in the context of increased public sector accountability. The committees play an independent role in advising the County Assembly on financial reporting processes, internal control, and risk management and audit matters. Therefore the management breached the law by not facilitating the establishment of the Assembly's audit committee.

Recommendation

The management should adhere to the Public Finance Management Act, 2012 and establish an audit committee failure to which the Accounting Officer should be held liable for the omission.

Conclusion

Government procedures and regulations should be followed to ensure public resources are only used for purposes for which they were intended. The County Assembly of Kilifi should address the anomalies noted in this report to ensure effective delivery of services to the people of Kilifi County.

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Nairobi

05 September 2016