REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL OPERATIONS OF SIAYA COUNTY ASSEMBLY

FOR THE PERIOD 1 JULY 2014 TO 30 JUNE 2015

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

Executive Summary

Background Information

The constitution of Kenya under Article 176 created the County Government which consists of the County Assembly and the County Executive. The County Assembly which is the Legislative arm of the County Government consists of the Speaker and Members of County Assembly (MCAs) (elected and nominated). The County Assembly of Siaya which is domiciled in Siaya town consists of thirty (30) elected and eighteen (18) nominated MCAs, all totalling to forty eight (48).

Introduction

The management and financial operations audit coverage period is between 1 July 2014 and 30 June 2015. It was undertaken to assess the adequacy and reliability of the management systems and financial controls instituted by the management of Siaya County Assembly 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 the Constitution under Article 229 to audit the accounts of both the National and County Governments. In this regard, the office planned and performed management and financial operations audit of the County Assembly of Siaya for the period 1 July 2014 to 30 June 2015 with the following audit objectives.

- Budgetary Performance analysis;
- Analytical Review;
- Revenue Audit Report;
- Staff Remuneration/salaries and wages;
- Procurement of Goods and Services;
- Bank and Cash;
- Audit of Projects;
- Fixed Assets – Fixed Assets Schedule (completeness);
- Mortgage and car loans schemes;
- Training Costs;
- Consultancy fees;
- Bursaries usage ;
- MCAs travel;
- Governor Expenses;
- Commitments /pending bills;
- Confidential Expenditure;
- Imprests;
- Legal fees;
- Inherited debts and liabilities;

- Audit of Roads;
- Systems audit;
- Review of Controller of Budget report and audit mitigations; and
- Review of IFMIS and E-procurement

Methodology

The approach used in carrying out this audit included but not limited to;-

- Interviews with key officers at the Siaya County Assembly offices;
- Review of applicable legislation and regulations;
- Examination of payment vouchers and support documents, cashbooks, vote books, bank statements, banking in slips, miscellaneous receipt books, procurement documents, stores records, asset registers and other related records;
- Review of minutes of various meetings in which resolutions regarding utilization of public funds were passed;
- Physical inspection and verifications;
- Observation of processes and activities; and
- Review of documents used by management to monitor use of funds.

Scope and Determination of Responsibilities

The audit was conducted in accordance with International Standards for Supreme Audit Institutions (ISSAIs).These standards require that the audit is planned and performed so as to obtain reasonable evidence that, in all material respects, expenditures incurred are fairly stated and 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 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. My responsibility is to report on the weaknesses and non-compliance with Laws and Regulations identified in the course of the audit.

Key Audit Findings

1.0 Budget Performance Analysis

During the year under review, the County Assembly of Siaya had a total allocation of Kshs.620,720,947 with Kshs.570,720.947 or (95%) being allocated to the recurrent expenditure while Kshs.50,000,000 or (5%) being allocated to the development expenditures. The 2014/15 detailed analysis is as below:-

Item	Budgetary Allocation	Actual	Actual as % of budget	Actual as % of Total Expenditure
Development	50,000,000	29,754,566	60%	5%
Recurrent	570,720,947	550,602,669	96%	95%
Total	**620,720,947**	**580,357,235**	**93%**	**100%**
Development 2013-2014	44,000,000	40,564,283	92%	

The following were noted:-

i. The actual development spent in the year was Kshs.29,754,566 against a budget of Kshs.50,000,000 representing 60% absorption rate. On the recurrent expenditure, actual expenditure was Kshs.550,602,669 against budget of Kshs.570,720,947 translating to 96% absorption rate.

ii. The development budget was earmarked for two development projects namely; the County Assembly Complex of Kshs.30,000,000 and the Speaker's residence of Kshs.20,000,000. However, the Assembly spent the balance of the development funds to pay the roll over projects for year 2013/2014 and other recurrent expenditures, including insurance of Kshs.9,547,851. There is no evidence of authority for the budgetary reallocations by the County Assembly.

iii. A review of the vote status report for the year under review revealed an unusual trend where the actual expenditure on some budget items was at 100% of the budget which does not seem realistic.

iv. The Assembly under spent on nine (9) items with a total expenditure of Kshs.31,824,100 and overspent on twelve (12) items with a total budget of Kshs.70,979,965.

v. The expenditure returns show that the Assembly spent a total of Kshs.27,000,000 on four (4) expenditure items which had nil allocations as per the final approved budget.

vi. The expenditure analysis indicates that sitting allowance and contracted guards had the highest over expenditure and no explanation was provided for the material variations. The reallocations were not regularized through supplementary budget before the end of the financial year.

vii. The County Assembly did not maintain a development cash book as required by the Public Finance Management Act, 2012.

Approved budgetary provisions should be utilized during the respective year by ensuring realistic and feasible budgets in line with the Public Finance management Act, 2012.

2.0 Staff Remuneration – Ward Operations

Included in the other operating expenses of Kshs.62,919,531 is an amount of Kshs.10,800,000 paid out as ward expenses for 30 wards at the rate of Kshs.30,000 per month per ward for the year under review. The payments were made vide a single payment dated 27 June 2015 where management did not avail for audit review expenditure returns showing how the money was spent.

3.0 Procurement of Goods and Services – Purchase of Office Cabinets

The County Assembly awarded a contract for supply of five (5) fire proof cabinets to a vendor at a total cost of Kshs.1,533,000. A market survey undertaken as per the deliberations of procurement committee meeting held on 23 February 2015, indicated the unit cost of the cabinets as Kshs.210,000 and totalling Kshs.1,050,000. Consequently, there was unexplained overcharge of Kshs.483,000 on the procurement of the cabinets which is an indication that procurement regulations were not adhered to.

4.0 Cash and Bank – Bank Reconciliation Statements

The County Assembly operates a bank account at Kenya Commercial Bank-Siaya A/c No.11434228927. Public Financial Management Act, 2012 requires that monthly bank reconciliations are carried out with the reconciling items being resolved promptly. Siaya County Assembly doesn't carry out monthly bank reconciliations; in its absence the risk of invalid payments being processed undetected is high. Further, the County Assembly's cashier en-cashes cheques instead of preparing schedules for direct payment by the bank. The County Assembly also did not maintain a development cashbook, which hinders the monitoring of the funds utilization.

5.0 Mortgage and Car Loan Schemes

Cumulative disbursements by the County Assembly under mortgage and car loan schemes amounted to Kshs.233,195,218 with Kshs.143,000,000 having been disbursed during the year under review. A review of the repayments by the beneficiary members of the County Assembly to the scheme revealed that, six (6) members had not started repaying their monthly repayments as of 30 June 2015 despite it being due. Further, some of the repayments are being made vide cash deposits into the Assembly's bank account as opposed to check-off system through payroll. This posses the risk of default and is in breach of the scheme regulations. The Assembly Service Board did not submit the financial statements of the fund for the year then ended to the Auditor-General for audit.

6.0 Security Deposited with Different Ownership

Twelve (12) members of the County Assembly deposited title documents as security under the mortgage and car loans scheme registered in names other than those of the beneficiaries (MCAs). There are also no commitment letters from the owners that they had guaranteed the members and in case of default in repaying the loan, they would forfeit the assets to the Assembly. In such circumstances, the loans disbursed stand unsecured and against the scheme policies and regulations.

7.0 Members of County Assembly Travel

7.1 Unsupported Local Travel

The County Assembly incurred expenditures totalling Kshs.14,730,595 on travelling and subsistence and out of which Kshs.3,612,349 was incurred by members of the County Assembly and other staff on domestic travels. The payment vouchers for domestic travels were not supported with the requisite documents to confirm that the travel did take place. Further, the County Assembly does not maintain an imprest register for ease and proper accountability of imprests issued. In the absence of the support documentations, the propriety of the travel expenditures amounting to Kshs.3,612,349 could not be confirmed.

7.2 Fuelling of MCAs Private Vehicles

The County Assembly incurred expenditures of Kshs.3,750,000 on motor vehicle fuel in the year under review. A review of documents supporting the fuel payments i.e work tickets and fuel registers revealed that Kshs,455,380 of costs related to personal cars for the Members of the County Assembly reportedly used for official duties. However there was no evidence to support usage of the vehicles on official duties.

7.3 Committee Allowance for MCAs and Ward Officials Salaries

The Assembly incurred Kshs.53,341,642 under other operating expenses for the year under review. Included in this amount is Kshs.15,600,000 paid out as subsistence allowance to committee members for various claims as committee allowances for honorable members and ward officials salaries. The management could not avail for audit review a detailed breakdown of the expenditure on how the funds were spent.

7.4 Sitting Allowances

The County Assembly paid County Assembly Members sitting allowances amounting to Kshs.85,142,600 against an approved budget of Kshs.69,607,647. This resulted in a 22% budget over run. No explanation was provided for the significant variations while no approval was obtained for the reallocations.

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

Nairobi

22 September 2016

Detailed Findings

1.0 Budgetary Performance Analysis

During the year under review, Siaya County Assembly total allocation of Kshs.620,720,947 with Kshs.570,720.947 or (95%) being allocated to the recurrent expenditure while Kshs.50,000,000 or (5%) being allocated to the development expenditures. The 2014/15 detailed analysis is as below:-

Item	Budgetary Allocation	Actual	Actual as % of Budget	Actual as % of Total Expenditure
Development	50,000,000	29,754,566	60%	5%
Recurrent	570,720,947	550,602,669	96%	95%
Total	**620,720,947**	**580,357,235**	**93%**	**100%**
Development 2013-2014	44,000,000	40,564,283	92%	

The following observations were noted:-

i. The actual development expenditure during the year was Kshs.29,754,566 against a budget of Kshs.50,000,000 representing 60% absorption rate. On the recurrent expenditure, actual expenditure was Kshs.550,602,669 against budget of Kshs.570,720,947 translating to 96% absorption rate.

ii. Siaya County Assembly development budget was earmarked for two development projects namely; the County Assembly Complex of - Kshs.30,000,000 and the Speaker's residence of Kshs.20,000,000. However, the Assembly spent the balance of the development funds to pay the roll over projects for year 2013/2014 and other recurrent expenditures, Including insurance of Kshs.9,547,851. There was no evidence of authority for the budgetary reallocations by the County Treasury.

iii. A review of the vote status report for the year under review revealed an unusual trend where the actual expenditure on some budget items was at 100% of the budget which appeared doubtful.

iv. The County Assembly under spent on nine (9) items with a total expenditure of Kshs.31,824,100 and overspent on twelve (12) items with a total budget of Kshs.70,979,965.

v. The expenditure returns indicated that the County Assembly spent a total of Kshs.27,000,000 on four (4) expenditure items which had nil allocations as per the final approved budget.

vi. The expenditure analysis indicates that sitting allowance and contracted guards had the highest over expenditure with no explanations being provided for the

material variations. The reallocations were not regularized through supplementary budget before the end of the financial year.

vii. The County Assembly did not maintain a development cash book as required by the Public Finance Management (PFM) Act 2012.

1.1 Recurrent Expenditure

A review of the vote status report for the year under review revealed an unusual expenditure patterns on several items as shown below, where the total expenditure stood at 100% of the budgeted amount which appears unrealistic.

Items	Approved Budget	Actuals Expenditure	Under Expenses	Over Expenses	% Variances
Basic salaries – civil servant	19,188,000	18,014,900	1,173,100		94
New staff provision	11,289,800	17,449,275		6,159,475	155
Gross monthly pay	79,136,424	68,240,342	10,896,082		86
Casual labour	0	14,400,000		14,400,000	100
House allowance	18,014,000	21,569,000		3,555,000	120
Responsibility Allowance	9,552,000	9,500,320	51,680		99
Transport allowance	22,668,128	27,058,552		4,390,424	119
Domestic Staff allowance	2,941,841	500,000	2,441,841		17
Non Practicing Allowance	900,000	930,000		30,000	103
Leave Allowance	1,447,023	843,512	603,511		58
Sitting allowance	69,607,647	75,564,711		5,957,064	109
Gratuity	36,343,484	29,505,484	6,838,000		81
Telephones ,water electricity	3,081,166	3,364,466		283,300	109
Travel Costs-Domestic	13,000,000	12,750,000	250,000		98
Daily subsistence	16,450,000	12,150,000	4,300,000		74
Foreign Accommodations	0	1,000,000		1,000,000	-100
Foreign daily subsistence	1,091,100	0	1,091,100		0
Publishing &Advertisements	6,071,667	6,071,667			100
Rents and rates – non residential	1,200,000	1,200,000			100
Rents and rates – residential	0	5,400,000		5,400,000	100
Hire of Transport	316,667	316,667			100
Training Expenses	10,717,500	10,428,513	288,987		97
Catering Services	6,000,000	6,060,000		60,000	101
Medical Insurance	12,500,000	12,500,000			100
Supplies	1,700,000	1,700,000			100

General office supplies	0	6,200,000		6,200,000	-100
Membership fees	541,667	541,667			100
Legal Costs	1,583,333	1,583,333			100
Professional Services	3,279,100	3,279,100			100
Maintenances	1,141,667	1,141,667			100
Purchase of Motor Vehicles	6,816,300	6,816,300			100
Car Purchase allowance	145,000,000	145,000,000			100
Other Operating Expenses	46,860,000		46,860,000		0
Refined fuel	3,150,000	3,750,000		600,000	119
Contracted Guard	4,000,000	10,640,721		6,640,721	266
Purchase of computers and IT	15,132,443	15,132,472		29	100
Total	**570,720,947**	**550,602,669**	**74,794,301**	**54,676,013**	**96**

It was noted that:-

The Assembly under spent on eleven (11) budget items with a total expenditure of Kshs.74,794,301 and overspent on fourteen (14) budget items totalling Kshs.54,676,013.

The expenditure returns shows that the Assembly spent a total of Kshs.27,000,000 on four (4) expenditure items which had nil allocations in the budget.

The expenditure shows that sitting allowance and Contracted Guards had the highest over expenditure with no explanation being provided for the material variations. The reallocations were not regularized through supplementary budget before the end of the financial year.

2.0 Staff Remuneration / Salaries and Wages

2.1 Ward Operations

Included in the other operating expenses of Kshs.62,919,531 is an amount of Kshs.10,800,000 paid out as ward expenses for 30 wards, at the rate of Kshs.30,000 per month per ward for the full year. The payments were made vide a single payment voucher number 5551 dated 27 June 2015; management did.not avail for audit review expenditure returns showing how the money was spent. **Refer to Appendix I**.

In the absence of supporting documents the propriety of the Kshs.10,800,000 expenditure could not be confirmed.

3.0 Procurements of Goods and Services

3.1 Inflated Cost of Purchase of Office Cabinets

The County Assembly awarded a contract for supply of five (5) fire proof cabinets to a vendor at a cost of Kshs.1,533,000. A market survey undertaken as per the deliberations of procurement committee meeting held on 23 February 2015, indicated the unit cost of the cabinets at Kshs.210,000 and totalling Kshs.1,050,000. Consequently, there was unexplained overcharge of Kshs.483,000 on the procurement of the cabinets; an indication that the Public Procurement and Disposal Act, 2005 and related regulations of 2006 were not adhered to.

4.0 Cash and Bank

4.1 Preparation of Monthly Bank Reconciliation Statements

The County Assembly operates a bank account at Kenya Commercial Bank-Siaya A/c No.11434228927. Public Financial Management Act, 2012 requires that monthly bank reconciliations are carried out with the reconciling items being resolved promptly. Siaya County Assembly doesn't carry out monthly bank reconciliations; in its absence the risk of invalid payments being processed undetected is high. Further, the County Assembly's cashier en-cashes cheques instead of preparing schedules for direct payment by the bank. This unnecessarily exposes the County Assembly to financial risks. The County Assembly also did not maintain a development cashbook, which hinders the monitoring of the funds utilization.

5.0 Mortgage and Car Schemes

5.1 Adherence to Scheme Regulations

Cumulative disbursements by the County Assembly under mortgage and car loan schemes amounted to Kshs.233,195,218 with Kshs.143,000,000 having been disbursed during the year under review. A review of the repayments by the beneficiary members of the County Assembly to the scheme revealed that, six (6) members had not started repaying their monthly deductions as of 30 June 2016 despite it being due. Further, some of the repayments are being made vide cash deposits into the Assembly's bank account as opposed to check-off system through payroll. This possess the risk of default and is in breach to the scheme regulations. The Assembly Service Board did not submit the financial statements of the Fund for the year then ended to the Office of Auditor-General for audit as per the Act. By June 2015, Six (6) members of the County Assembly had not made any repayment of the Kshs.28,779,115 loaned to them in May 2014 as tabulated below:-

No.	Name	Loan Amount
1	Hon. Willis Ochieng	4,961,954
2	Hon. Silvester Madialo	3,969,527
3	Hon. Fred Ouda	4,961,954
4	Hon. Elisa Okuku	4,961,954
5	Hon. Stephen Kadera	4,961,954
6	Hon. Edwin Martin Otieno	4,961,772
	Total	**28,779,115**

The sustainability and administration of the mortgage and car loan facility as a revolving fund may be at stake as the rules and regulations governing its operations are being flouted. Realization of the deposited security may not be feasible where members default on loan repayments.

6.0 Deposit with Different Ownership

Twelve (12) members of the County Assembly deposited title documents as security under the mortgage and car loans scheme registered in names other than those of the beneficiary MCAs. There are also no commitment letters from the owners that they had guaranteed the members and in case of default in repaying the loan, they would forfeit the assets to the Assembly. In such circumstances, the loans disbursed stand unsecured and against the scheme policies and regulations. The particulars of the 12 MCAs are as below:-

Name	True Owners
Hon. Eric O Ndonji	Letter of succession for Julius Ouma Oketch
Hon. Apiyo C. Apiyo	Used title for Ancentus Apiyo Ajwang
Hon. Willis Ochieng	Used title for Jackton Ochieng Okola
Hon. Booker Minami	Used letter of no objection as security
Hon. Edwin M. Otieno	Used title for Vitalis Otieno Obonyo
Hon. Margaret Olongo	Used title for George B. Olongo T. Odingo (Husband)
Hon. Nicholas Aneme	Used allotment letter from County Council of Bondo
Hon. Anjeline Odhiambo	Used title for Peter Odhiambo Owiti (Husband)
Hon. Lorna Adida	Used title for Vitalis Ochieng Adida (Husband)
Hon. Teresa Osore	Used title for Peter Osore Alaro (Husband)
Hon. Rose Orite	Used title for Jeremiah Onyango Angula (Husband)
Hon. Fred Ouda	Used title co-owned with Asher Ben Odhako

Any provision that would have been necessary in relation to these uncertainties have not been provided in these financial statements.

7.0 Members of County Assembly (MCAs)

7.1 Unsupported Local Travel

The County Assembly incurred expenditures totalling Kshs.14,730,595 on travelling and subsistence; of this amount, Kshs.3,612,349 was incurred by members of the County Assembly and other staff on domestic travels. The payment vouchers for domestic travels are unsupported with the requisite documents to confirm that the travel did take place. Further, the County Assembly does not maintain an imprest register for ease and proper accountability of imprests issued. In the absence of the support documentations, the propriety of the travel expenditures amounting to Kshs.3,612,349 could not be confirmed.

The details of the tickets are as shown below:-

Company	Date	Purpose	Amount	PV.No
African Touch safaris	11/03/15	Flight services to MCAs	637,000	76
Kisumu link tours &Safaris	20/01/15	Air tickets for MCAs	754,780	193
African Touch Safaris	30/06/15	Flight Services to MCA	1,575,929	45/46
Westend Hotel	21/05/15	Catering Services	644,640	82/6

African Touch Safaris	17/06/15	Flight Services to MCAs	223,205	139
		Total	**3,835,554**	

In the absence of proper documentation and explanation, the Assembly may have lost Kshs.3,612,349 on travels that never took place.

7.2 Fuelling of MCAs Private Vehicles

The County Assembly incurred expenditures of Kshs.3,750,000 million on fuel in the year under review. A review of documents supporting the fuel payments i.e work tickets and fuel registers revealed that Kshs,455,380 of costs related to personal cars for the Members of the County Assembly reportedly used for official duties. However there was no evidence to support usage of the vehicles on official duties nor authorization. Consequently, the propriety of the reported fuel costs cannot be confirmed. **(Refer to Appendix II)**

7.3 Committee Allowance for MCAs and Ward Officials Salaries

The Assembly incurred Kshs.53,341,642 under other operating expenses for the year under review. Included in this amount is Kshs.15,600,000 paid out as subsistence allowance to committee members for various claims as committee allowances for honourable members and ward employee salaries. The management could not avail for review detailed breakdown of the expenditure on how the funds were spent, hence unable to confirm whether Kshs.15,600,000 expenditure was a proper charge to public funds.

7.4 Sitting Allowances

The County Assembly paid County Assembly Members sitting allowances amounting to Kshs.85,142,600 against an approved budget of Kshs.69,607,647. This resulted in a 22% budget over run. No explanation was provided for the significant variations and no approval was obtained for the reallocations.

Conclusion

The anomalies noted may have adversely affected delivery of various services. The management should implement recommendations made to ensure that public resources are economically and effectively utilized.

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

Nairobi

22 September 2016