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Chairperson of the Sessional Committee on Public Accounts and Investments

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REPUBLIC OF KENYA

KENYA NATIONAL AUDIT OFFICE

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL OPERATIONS OF NAROK 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 NAROK COUNTY EXECUTIVE FOR THE PERIOD 1 JULY 2013 TO 30 JUNE 2014

EXECUTIVE SUMMARY

Introduction

The financial transactions of the County Government of Narok for the financial year 2013/2014 are subject to audit by the Auditor-General in accordance with article 229 (5) of the Constitution of Kenya.

Audit Objective

The audit was to find out whether the expenditure constituted a proper charge to public funds and whether there was general adherence to public finance management control.

Terms of Reference

The audit covered the financial operations of Narok County Executive for the period 1 July 2013 to 30 June 2014. The terms of reference set for the audit included verifications and confirmations of transactions in respect but not limited to the following areas:

- Budgetary control and performance Revenue collections
- Revenue collections
- Recurrent and development expenditure
- Current debtors and current liabilities
- Procurement and procurement procedures

KEY AUDIT FINDINGS

1.0 Internal Control Environment

1.1 Establishment of Audit Committee

Although the Narok County Executive has established the Internal Audit Committee, its mandate and terms of reference and modus operandi was not availed for audit review.

1.2 IFMIS and G-Pay

The County Executive had not fully installed IFMIS for the period under review. However, the County Government had commenced phased installation of the system as required by section 12 of the Public Finance Management Act, 2012.

1.3 IT Control Environment and ICT Governance

It was observed that at the time of this audit the County Executive was in the process of formulating an ICT Framework for its ICT department. The County Executive had not yet completed developing and implanting some key ICT documents such as ICT Policy and Procedures, ICT Strategic Plan, Business Community (BCP) Policies and Disaster Recovery Plan (DRP).

2.0 Budgetary Control and Performance

2.1 Development Expenditure

Section 15(2) (a) of the Public Finance Management Act, 2012 requires County Governments to allocate a minimum of 30% of its budget to development expenditure over the medium term. During financial year 2013/2014 the County Government incurred a total expenditure of Kshs.4,535,295,930 of which only Kshs.1,269,882,860 or 28% was development expenditure which however falls short of the 30% threshold.

2.2 Personnel Costs

During the year, no specific percentage was set by the County Executive Member for Finance and approved by the County Assembly as required by the law. For example, the expenditure on personnel costs of Kshs.2,019,705,364 for the year ended 30 June 2014 was approximately 44.5% of the total expenditure of Kshs.4,535,295,930 incurred by the County Executive in the financial year. The County Executive wage bill appears unsustainably too high.

2.3 Construction of Roads

The County Executive allocated Kshs.1,222,820,240 in the 2013/2014 budget for the construction of rural and urban roads. There was inordinate delay in awarding the tenders, most of which were awarded in April 2014 due to procurement challenges. The work therefore spilled over to financial year 2014/2015. Delays in awarding the tenders affected service delivery negatively.

2.4 Motor Vehicles Insurance

During the year under review the County Executive incurred expenditure totaling Kshs.17,784,737 in respect of provision of insurances services. However, the Executive did not undertake a market comparative analyses on whether the premiums were competitive or not.

2.5 Bursaries Funds

During the year the County Executive disbursed bursary funds totaling Kshs.112,000,000 to students in various secondary schools, colleges and universities through Narok County Government Bursary Management Board which was created by the Narok County Bursary Act, 2013. However, there were no written acknowledgements from the respective institutions confirming receipts of the bursary funds.

2.6 Unsurrendered Staff Imprest

Temporary Imprests totaling Kshs.4,216,000 advanced to county officers had not been surrendered or accounted as at 30 June 2014. Failure to surrender imprests when they fall due is a pointer to weak financial control which may lead to loss of public funds.

3.0 General Procurement

A review of the procurements done by the County during the year under review revealed the following inadequacies;

3.1 Procurement Plan

Public Procurement and Disposal Act requires all procurements to be within the approved budget of the procuring entity and to be planned through an annual procurement plan. However, the County Executive did not have an approved annual procurement plan for 2013/2014.

3.2 Procurement of Receipt Books

The County Executive procured receipt books from a supplier at a cost of Kshs.1,307,900. However, the county executive does not maintain a separate register for the receipt, issuance, surrender and accountability of those books.

3.3 Procurement of Wall Calendars

The County Executive procured wall calendars at a cost of Kshs.3,400,000. However, separate stores records for receipt and issuance of the calendars were not maintained.

3.4 Procurement of Generator

On 26 September 2013, the County Executive paid Kshs.2,177,700 in respect of purchase of a generator which was to be supplied to Olkeri Model School per the proforma invoice dated 14 February, 2012 issued to the defunct Narok County Council. However, documents availed indicated that the defunct Narok County Council had also paid Kshs.1,000,000 for the same generator which represents an over payment.

Edward R. O. Ouko, CBS
<u>AUDITOR-GENERAL</u>

Nairobi

01 July 2015

DETAILED REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL OPERATIONS OF NAROK COUNTY EXECUTIVE FOR THE PERIOD 1 JULY 2013 TO 30 JUNE 2014

1.0 Internal Controls Environment

1.1 Establishment of Audit Committee

Although the County Executive has established the audit committee as required, the Committee's Terms of Reference and mandate were not availed for audit review. The audit team could not therefore establish its effectiveness. The Committee's mandate include the following but not limited to;

- The various audit reports (internal and external) are to be tabled to the committee.
- Understanding and assessing the overall risks the County Executive faces.
- Review of the adequacy of internal controls that management has put in place regarding financial control, accounting systems and reporting.
- Reviewing the entity's compliance with all relevant legislation and statutory requirements.
- Approval of the internal audit charter.
- Review of the interim (half-year) and annual financial statements.

Recommendation

In order to operationalize and give adequate powers to the audit committee, the County Executive should ensure that the audit committee has a documented and approved terms of reference making provision for the:

- Membership of the committee;
- Attendance and frequency of meetings;
- Roles and responsibilities;
- Reporting procedures and responsibilities.

1.2 IFMIS and G-Pay

The Public Finance Management Act, 2012 requires the County Government to ensure that the financial management system designed and developed by the National Treasury under section 12 of the Public Finance Management Act, 2012 (No. 18 of 2012) is effectively applied to facilitate standard financial management including budgeting, accounting and reporting". It was however, noted that IFMIS had not been fully installed for the period under review. The County Executive however, had commenced phased installation of the IFMIS system.

Recommendations

The management should ensure that both IFMIS and G-Pay systems are fully installed and operationalized to enhance accountability in the County.

1.3 IT Control Environment and ICT Governance

It was observed that at the time of this audit the County Executive was in the process of formulating an ICT Framework for future enhancement of its ICT Department. The County Executive was also in the process of developing and implementing some of the key ICT documents such as ICT policies and procedures, ICT Strategic Plan, Business Continuity Policies (BCP) and Disaster Recovery Plans (DRP). However, the County Government had not established an ICT Steering Committee to foresee the task.

Recommendations

The County Executive should enhance ICT capacity so as to enance management and governance of the county. Formulation of ICT governance documents should be completed and adopted by the management of the County Government. Further, an ICT Steering Committee should be constituted to address these issues.

2.0 Budgetary Control and Performance

2.1 Development Expenditure

Section 15(2) (a) of the Public Finance Management Act, 2012 requires County Executive to allocate a minimum of 30% of its budget to development expenditure over the medium term. During financial year 2013/2014 the County Executive incurred a total expenditure of Kshs4,535,295,930 out of which Kshs1,269,882,860 or 28% was development expenditure. This ratio however, falls short of the threshold mark by 2%.

Recommendation

The County Executive should increase the budgetary provisions for development expenditure in order to enhance development in the County and adhere to provisions of section 15(2) (a) of the Public Finance Management Act, 2012.

2.2 Personnel Costs

Section 107(2)(c) of the Public Finance Management Act, 2012 provides that the County Government expenditure on wages and benefits shall not exceed 25% of the County Government total revenue as prescribed by the County Executive Member for Finance in regulation and approved by the County Assembly.

However, during the year, no specific percentage was set by the County Executive Member for Finance and approved by the County Assembly as required by the law. Further, the expenditure on personnel costs of Kshs.2,019,705,364 as at 30 June 2014 was approximately 44.5% of the total Expenditure of Kshs4,535,295,930 collected by the County Executive in the financial year. The County Executive wage bill appears unsustainably high.

Recommendation

The County Executive should establish proper organization structure personnel gap requirement so as to establish the optimal staff requirement that can be accommodated in the County budget.

2.3 Construction of Roads

The County Executive allocated Kshs.1,222,820,240 in the 2013/2014 budget for the construction of rural and urban roads. Tenders for road works were awarded in April 2014. Due to the delay in awarding the tenders, the work spilled over to financial year 2014/2015. Delays in awarding the tenders affected service delivery.

Recommendations

The County Executive should improve on the planning and execution of projects in order to enhance service delivery.

3.0 Recurrent and Development Expenditure

3.1 Motor Vehicles Insurance

During the year under review, the County Executive incurred an expenditure of Kshs.17,784,737 in respect of provision of insurances services. However, the Government did not provide a market comparative analysis on whether the premiums were competitive.

Recommendations

The Executive should endeavor to ensure that the premiums are at all times competitive.

3.2 Bursaries Fund

During the year, the County Executive disbursed bursary funds totaling Kshs.112,000,000 to students in various secondary schools, colleges and universities through Narok County Government Bursary Management Board which was created by the Narok County Bursary Act, 2013. However, there were no written acknowledgements from the respective institutions confirming receipts of the bursary funds.

Recommendation

The County Executive should formulate clear guidelines on the administration of bursary funds to ensure that the bursaries reach the intended beneficiaries and are adequately accounted for.

3.3 Unsurrendered Staff Imprest

Temporary Imprests totaling Kshs.4,216,000 advanced to County Officers had not been surrendered or accounted as at 30 June 2014.

Recommendation

The County Executive should ensure that the imprests are surrendered or recoveries made from the officers concerned.

4.0 General Procurement

A review of the procurements done by the County during the year under review revealed the following inadequacies;

4.1 Procurement Plan

Section 26 (3) of the Public Procurement and Disposal Act requires all procurements to be within the approved budget of the procuring entity and to be planned through an annual procurement plan. However, the County Government did not have an approved procurement plan for the 2013/2014 financial year.

Recommendations

In future, the County Executive should prepare an annual procurement plan which should be approved as required by the Act.

4.2 Procurement of Receipt Books

The County Executive procured receipt books from a supplier at a cost of Kshs.1,307,900. However, we noted that the Executive does not maintain a separate register for the issuance, surrender and accountability of the books.

Recommendations

The County Executive should develop a system for proper recording and management of stores and inventory.

4.3 Procurement of Wall Calendars

The County Executive procured wall calendars at a cost of Kshs.3,400,000. Although stores records for receipt and issuance of the calendars were availed for audit verification, it was noted that a separate Register that aid in inventory management was not maintained.

Recommendations

The County Executive should develop and implement a system for proper recording and management of stores and inventory.

4.4 Procurement of a Generator

On 26 September 2013, the County Executive paid Kshs.2,177,700 in respect of purchase of a generator which was to be supplied to Olkeri Model School as per proforma invoice dated 14 February, 2012 issued to the defunct Narok County Council. However, documents availed indicate that the defunct County Council had paid Kshs.1,000,000 through cheque No. 686 of Kshs.500,000 on 7 August 2012 and cheque No. 011325 of Kshs.500,000 on 2 October 2012. There appears to have been an overpayment of one million shillings.

Recommendations

The Executive should investigate the excess payment and recover the same from the supplier.

Conclusion

The Narok County Executive should address the anomalies noted in order to ensure effective delivery of service to the people of Narok County. Laid down government regulations and procedures should be adhered to ensure public resources are only utilized for purposes for which they were intended.

Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

01 July 2015