

REPUBLIC OF KENYA



Report laid
By Chairperson, National
Committee in County Public
Accounts and Investment

[Signature]
07/07/15

KENYA NATIONAL AUDIT OFFICE



REPORT
OF
THE AUDITOR-GENERAL
ON
THE FINANCIAL OPERATIONS OF
KITUI COUNTY ASSEMBLY
FOR THE PERIOD
1 JULY 2013 TO 30 JUNE 2014

Table of Contents

Executive Summary.....	1
Introduction.....	1
Audit Objectives.....	1
Key Audit Findings.....	1
1.0 In-effective Internal Audit.....	1
2.0 Procurement of Good, Works and Services	1
2.1 Irregular Procurement Procedures for Group Personal Insurance	1
2.2 Irregular Procurement Procedures of Laptops	1
2.3 Irregular Award of Tender to Install Access Control Systems.....	2
2.4 Irregular Award of Construction Works of a High Tower	2
3.0 Irregular Acquisition and Payment of Rented Ward Offices	2
4.0 Irregularly Paid Allowances to MCAs	2
5.0 Unaccounted For Motor Vehicle Fuel.....	2
6.0 Untaxed Airtime.....	2
7.0 Unauthorized Payments	3
8.0 Inadequacy in Fixed Assets Register Maintenance	3
9.0 Human Resource	3
10.0 Car Loan Scheme	3
Detailed Audit Findings	5
1.0 Weak Internal Control System	5
2.0 Procurement of Good, Works and Services	5
2.1 Irregular Procurement Procedures for Group Personal Insurance	5
Recommendation.....	5
2.2 Irregular Procurement of Laptops	6
Recommendations.....	7
2.3 Irregular Award of Tender to Install Access Control Systems.....	7
Recommendation.....	7
2.4 Irregular Award of Construction Works of a High Tower	7

Recommendation.....	8
3.1 Irregular Acquisition and Payment of Rented Ward Offices	8
Recommendations.....	9
3.2 Irregularly Contracted Works on Wiring Extension and Repair of Security Lights	9
Recommendations.....	10
4.0 Payment of allowances.....	10
4.1 Irregularly Allowances to MCA's while on Conference in Mombasa	10
Recommendations.....	11
4.2 Allowances paid to MCA's while on Conference in Kasarani.....	11
Recommendations.....	12
4.3 Expenditures on Foreign Travel.....	12
Recommendations.....	12
4.4 Foreign travel to Singapore and Hong Kong China	13
Recommendation.....	13
5.0 Unaccounted for Motor Vehicle Fuel worth.....	14
Recommendations.....	14
6.0 Untaxed Airtime.....	14
Recommendation.....	15
7.0 Unauthorized Payments	15
Recommendation.....	15
7.1 Failure to Adhere to Controls/Procedures as Set out in Regulations	15
Recommendation.....	16
8.0 Inadequacy in Fixed Assets Register Maintenance	16
Recommendation.....	16
9.0 Human Resources	16
9.1 Lack of human resource manuals, Scheme of Service, Terms and Conditions of service	16
Recommendation.....	16
9.2 Overpaid MCAs Salaries	17
Recommendation.....	17
10.0 Car Loan Scheme	17

Recommendations..... 20

Conclusion..... 20

REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL OPERATIONS OF KITUI COUNTY ASSEMBLY FOR THE PERIOD 1 JULY 2013 TO 30 JUNE 2014

Executive Summary

Introduction

The Office of the Auditor-General has the mandate to audit and report on the accounts of the National and County Governments under Article 229 of the Constitution of Kenya and Public Audit Act, 2003. The Special Audit has been completed in accordance with section 229 of the Constitution of Kenya.

Audit Objectives

The objective of the audit was to verify and confirm whether the systems formulated and applied by the County Assembly of Kitui were reliable for the management of the finances in the delivery of service to the public.

Key Audit Findings

1.0 In-effective Internal Audit

Though the County Assembly has an internal audit department in place, the department has not been doing their work as stipulated in the Public Finance Management Act, 2012. The department is poorly staffed and with little resources as compared with its mandate.

2.0 Procurement of Good, Works and Services

2.1 Irregular Procurement Procedures for Group Personal Insurance

An analysis of the contract awarded to an insurance firm to provide insurance cover to the Members of County Assembly revealed that the County Government did not adhere to the provisions of Public Procurement and Disposal Act of 2005. The contract was awarded to the highest bidder at a contract sum of Kshs.16,255,590 against the lowest bidder of Kshs. 3,679,910. The Assembly incurred an extra cost of Kshs.12,575,680.

2.2 Irregular Procurement Procedures of Laptops

The County Assembly floated quotations ref CAKITUI/QUO/LP/01/2014 for Supply of forty (40) Laptops to three (3) suppliers. The procurement procedures followed in this procurement was call for quotations which is against the entity threshold of Kshs.2,000,000 as stipulated under section 88 of the Act, in the first schedule-threshold matrix of the Public Procurement Regulations, 2006. In disregard to this provision the

Assembly procured laptops and accessories totaling to Kshs.4,226,208 using call for quotations method of procurement instead of using open tender method to attract competitive bidding.

2.3 Irregular Award of Tender to Install Access Control Systems

The County Assembly single sourced a contractor for the installation of Access Control Systems at a contract price of Kshs.1,376,520 hence there was no competitive bidding.

2.4 Irregular Award of Construction Works of a High Tower

The County Assembly paid a contractor Kshs.570,615 for the construction of a storage water tank high tower on 26 June 2014 whereas the tender documents for that project were floated on 24 July 2014. This is a case where payment is made in advance and other procedures are formalized later.

3.0 Irregular Acquisition and Payment of Rented Ward Offices

The County Assembly acquired offices for all elected Members of the County Assembly (MCAs) without any valuation and inspection done by a government or registered valuer to determine their suitability and rent to be paid for the individual office given that they are all in different location. The Assembly paid same rent for all the offices despite being in various locations and of different sizes. A total of Kshs.2,400,000 was paid during the year.

4.0 Irregularly Paid Allowances to MCAs

The County Assembly made various payments in terms of night-outs to MCAs for conferences and foreign trips. Analysis confirmed that the MCAs received extra allowances than the stipulated amount as per duration of the conferences and foreign trips without any given explanation for the extra night-outs. A total of Kshs.468,000 was paid over and above the normal rates.

5.0 Unaccounted For Motor Vehicle Fuel

Records on fuel usage including the bulk fuel register were poorly maintained. The fuel drawn by the motor vehicles could not be accounted for in the fuel register, transport work tickets or supported by relevant documentation. Consequently, fuel worth Kshs.1,815,049 could not be accounted for.

6.0 Untaxed Airtime

MCAs and some Assembly staff are paid /given airtime cash benefit but not taxed.

Further, airtime payment vouchers for the months of November 2013 and January 2014 for MCAs and for March 2014 for assembly staffs were not made available for audit review.

7.0 Unauthorized Payments

Payments amounting to Kshs.8,525,865 paid from the operations account of the County Assembly were processed without complete authorizations by the Accounting Officer and the Finance Officer or their alternates as required. This implies that control was not adhered to and expenditure of Kshs.8,525,865 could not be confirmed as a proper charge on public funds.

8.0 Inadequacy in Fixed Assets Register Maintenance

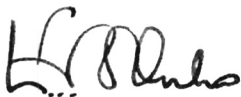
The County Assembly has acquired various assets, mainly furniture and fittings, computers/ laptops, since its inception worth Kshs.9,060,440. However, maintenance of accurate assets records is not in place.

9.0 Human Resource

The County Assembly Service Board had not caused formulation and approval of the human resource manuals for use in the administration of the staff of the county assembly. Further the County Assembly paid two increments in March 2014 to Members of County Assembly (MCAs) instead of one increment as per the Salary and Remuneration Commission circular. Further the increment was due in April and not March.

10.0 Car Loan Scheme

All the MCAs of County Assembly of Kitui were given the car loan by the management. However, the car loan scheme fund regulations approved by the assembly were not followed in the disbursement of those loans. In the circumstance, loans amounting to Kshs.66,450,000 are not properly secured.



Edward R. O. Ouko, CBS
Auditor-General

Nairobi

22 May 2015

REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF KITUI FOR THE PERIOD 1 JULY 2013 TO 30 JUNE 2014

Detailed Audit Findings

1.0 Weak Internal Control System

Though the County Assembly has an internal audit department in place during the period under review, the department was un-operational. No effort has been made by the County Assembly to have the officers inducted in to what is their role, developing and execution of their annual work plans. Further the County Assembly has not developed operational manuals and policies. As a result, stages/procedures for making payments have not been documented showing the various stages of authority.

The audit, therefore, was based on the existing financial regulations used in the national government.

The internal audit department should be provided with adequate and competent staff to handle the work. The staff should be inducted to their work. The Assembly should assist them to develop the internal audit manual.

2.0 Procurement of Good, Works and Services

2.1 Irregular Procurement Procedures for Group Personal Insurance

The tender for provision of Group Personal Insurance cover, Tender No.CAKITUI/12/2013-2014, for the County Assembly staff was advertised on 31 July 2013 in the local newspaper and on tender opening, seven (7) firms responded as recorded by minutes of 21 August 2013.

A tender evaluation committee on 13 September 2013 eliminated two firms due to non – conformity to tender requirements. The remaining five firms were evaluated in the financial stage and the committee recommends the lowest bidder at a contract sum of Kshs.3,679,910. However, the County Assembly Tender Award Committee sitting on 27 September 2013 awarded the tender to one of insurance company based in Nairobi which was the highest bidder at a contract sum of Kshs.16,255,590. No evidence was availed to show that clauses in the tender documents which set out the criteria were followed to identify the most suitable bidder. The County Assembly therefore incurred additional expenditure of Kshs.12,575,680.

Recommendation

The Kitui County Assembly Tender Award Committee should adhere to provisions of the Public Procurement and Disposal Act, 2005 and its regulations, 2006.

2.2 Irregular Procurement of Laptops

The County Assembly floated quotations Ref. CAKITUI/QUO/LP/01/2014 for supply of forty (40) Laptops to three (3) suppliers. No evidence was availed to show that these quotations were opened and evaluated by a properly appointed committee since no minutes on tender opening and evaluation were made available during the audit.

Further, unconfirmed minutes by the chairperson of the tender committee of 20 January 2014 vide minute Ref. CAKITUI/TC/11/01/2014 awarded tender to a computer company based in Nairobi for supply of laptops, software and anti-virus.

LPO's No. 1975498/9 were issued on 27 January 2014 for supply of 57 No HP 2000 Notebook laptops for Kshs.3,009,600, software for each (Microsoft Home and Business) for Kshs.1,097,593 and single user Anti – virus for all the laptops at Kshs.119,015.

Delivery of the order was made on 31 January 2014 through Delivery Note No. 5622, Invoice No. 6411 of 30 January 2014 was raised for the total sum of Kshs.4,226,208 and paid on 19 February 2014 vide cheque/G-Pay 450. This was after inspection had been done on 4 February 2014 by the Inspection and Acceptance Committee.

The procurement procedures followed in this procurement was call for quotations. The threshold for class A, of which the county assembly is classified; procuring entities for call for quotations for goods under Section 88 of the Act is a maximum of Kshs.2,000,000 as stipulated in the First Schedule – threshold matrix of the Public Procurement Regulations, 2006.

However, in disregard to the provisions of Section 88 (a) and (b) of the Act and the First Schedule on threshold matrix of the Regulations 2006, the Assembly procured laptops and accessories totaling Kshs.4,226,208 using the call for quotations method of procurement instead of using open tender method to attract more competitiveness.

The Assembly was in breach of the provisions of the Act and as such may have not obtained the most competitive prices in the market and best value for money.

Further, the quotations sent to the three suppliers based in Nairobi did not contain similar/uniform information in detail of the items required to be procured. The requirement to procure the Microsoft home and business software and the anti-virus was not included in the quotation document sent to all the prospective suppliers hence other prospective suppliers were not given the opportunity to quote for the software and the antivirus. Thus, the supply of the softwares and the antiviruses for the 57 laptops at a cost of Kshs.1,216,608 was not subjected to competitive bidding but was single sourced from one supplier.

A verification of one of the un-issued laptops in the store (from the batch of the 57 laptops) showed that it was not pre-installed with the antivirus and the Microsoft home and business software casting doubt on whether the software and the antiviruses were pre-installed to all the 57 laptops before delivery as purported.

Recommendations

- Recover the amount of Kshs.1,216,608 for the uninstalled software and anti-virus to the 57 laptops from the officers authorizing payments.
- The County Assembly should adhere to Procurement laws in force and ensure that the laptops in store which was said to be faulty is replaced/rectified, installed with the software/anti-virus and issued to the final user as had been intended.

2.3 Irregular Award of Tender to Install Access Control Systems

The County Assembly invited a firm to quote for Installation of Access control system through undisclosed means since no documentary evidence has been adduced. On 26 May 2014, they submitted their quotation for these works at a sum of Kshs.1,376,520.

A payment of the said amount was processed and paid on 29 May 2014, barely three days after the quotation was received. No LPO, certificates of completion and/or invoices were attached to the payment voucher to support that the works had duly been executed before payment. The IT project as awarded to a construction company with no expertise.

Recommendation

- The County Assembly management should recover/surcharge the unsupported amount of Kshs.1,376,20 from the authorizing officers.
- The County Assembly should comply with the Public Procurement and Disposal Act, 2005 and its Regulations 2006.

2.4 Irregular Award of Construction Works of a High Tower

The Assembly paid Kshs.570,615 to Building Contractors for construction of a storage water tank high tower on 26 June 2014. However, quotations for these works had not been floated by the time the payment was done as evidenced by the date the quotations were ostensibly opened on 24 July 2014, casting doubt on whether the procurement procedures were followed. It is not clear whether the actual work was undertaken.

Unreferenced letter from the Works officers dated 26 June 2014 purporting that these works had been executed is the only support document that was relied upon in authorizing this payment. No LPO or Invoice was attached or availed to support the payment which cleared from the Kitui County Assembly Operations Account held at KCB on 27 June 2014.

Recommendations

- The Assembly management should recover the unsupported amount of Kshs.570,615.00 from the officers who authorized the payments.
- The County assembly should ensure compliance to the Public Procurement and Disposal Act 2005 and its Regulations, 2006.

3.1 Irregular Acquisition and Payment of Rented Ward Offices

A resolution by County Assembly Service Board meeting on 15 August 2013 through minute Ref. KCASB/35/2013 was passed to open and pay rent for all elected forty (40) MCA's offices. Monthly rent was fixed at Kshs.5,000 for each ward.

However, the following anomalies were noted;

- No procurement procedures were observed in the identification of these offices.
- There was breach of requirements set out by governing regulations that, such rented offices first be valued by a government or registered valuer before the offices become operational/are occupied so as to establish the rent payable in regard to prevailing market rates. No evidence was adduced that this was met.
- The ward offices are spread across Kitui County and are of different sizes and in different locations yet rent is purported to be uniformly paid at a rate of Kshs.5,000 per month for all the ward offices. There was failure to do due diligence.
- An assessment by the relevant department in February and March 2014 on the existence and establishment of the ward offices indicated some were operational while others were located in residential homes.
- The rent is payable quarterly as quoted by the tenancy agreements. In the July to September quarter of calendar year 2013, the purported rent was paid to individual MCA's personal accounts much later in the month of December 2013 vide various payment vouchers worth Kshs.600,000.

It is not clear why the payments was made to the MCA's and if they had indeed acquired the ward offices by then and the offices were operational by that particular time. No prove of acknowledgement by the landlords in form of receipts were produced particularly for this backdated payments.

Some ward offices were not operational as per the date of inspection but the rent was being paid for the particular ward office. It is not clear why payment was made before the offices became operational. Details are as follows;

- Kisasi Ward – On 7 February 2014, Inspection report indicated that there existed no ward office. The office only became operational on 1 March 2014.
- Township Ward – On 8 February 2014 the office was not operating but the personal assistant was housed in different office. There was no inspection report as at the time of audit exit on the establishment/existence of this office.
- Kwa Vonza/Yatta Ward – On the date of the inspection on 7 February 2014 this office did not exist. The office became operational on 28 February 2014.
- No tenancy agreements for Waita, Kanyangi and Nuu wards were made available for audit review.

For the period under review, Kshs.1,800,000 had been paid. These funds cannot be confirmed as a proper charge on public funds.

Recommendations

The Management of Kitui County Assembly should;

- Determine the need and required standard ward office by appropriate County Government organs.
- Have all the ward offices valued by the relevant Government department to determine the monthly rents payable, suitability of the location/site of these offices in terms of accessibility by the public, floor space and availability of other amenities.
- Recover all the rent paid of Kshs.1,800,000 for non – existent ward offices from the responsible MCAs/officers as per Appendix 1.

3.2 Irregularly Contracted Works on Wiring Extension and Repair of Security Lights

Undated and unreferenced quotations were floated to three firms seeking services for wiring extension and repair of security lights the three merchants quoted.

However, it was observed that;

- It was not clear how the said merchants/service providers were identified to float quotations to them.
- The said quotations were never adjudicated and there is no evidence that this was made except for the purported evaluation done by three members on 12 August 2013. Further, no evidence has been obtained that these members were ever or had

been appointed to sit in this committee by the Accounting Officer/relevant authorities.

- Undated Local Purchase Orders No 1975481/2 was issued to one of the suppliers to carry out the works at a cost of Kshs.147,970.
- There was no evidence that priced BQ/Estimates had been done by the relevant government department in charge of electrical services to measure and determine the required works/services necessary for the Assembly. There is the risk that services charged and paid for may not have been all necessary.
- Further, there was no evidence that an assessment and /or inspection on satisfactory completion of the works were done by the same department to request for payment to be settled.
- However, undated invoice was attached to the quotation of the winning bid as opposed to the same being attached to the voucher to support the payment.
- Payment Voucher No 445/2013 and Cheque No 000280 both of 22/11/2013 effected the payment/settlement without necessary documents to support including but not limited to: Triplicate copy of the LPO/LSO, invoice, completion certificate.
- There is the risk that the other copies of the LPO copies may be used to make multiple payments in future.

Recommendations

- The County Assembly management should recover the amount of Kshs.147,970 from the authorizing responsible officers
- In future, in the absence of prequalified contractors, the Management of Kitui County Assembly should source for suppliers/merchants already prequalified by other Government agencies and ensure compliance to provisions of the Public Procurement and Disposal Act, 2005 and its Regulations, 2006.

4.0 Payment of allowances

4.1 Irregularly paid Allowances to MCA's while on Conference in Mombasa

The Council of Governors through their invitational letter reference COG/DC/052/3/2014 of 21 March 2014 invited MCA's for a two day Annual Devolution Conference on 3 April 2014 and 4 April 2014 at Leisure Lodge, Kwale County. Daily conference package charges of Kshs.5,100 per delegate, Accommodation and Transport allowances were to be facilitated by the respective counties.

Consequently, Kitui MCA's, fifty seven (57) in number, were each paid Kshs.82,000 being six (6) nights – outs at a daily rate of Kshs.12,000 and Kshs.10,000 lump sum for transport costs. The speaker of the County Assembly received Kshs.72,000 only being night-outs/accommodation allowances since an additional charge of Kshs.29,860 for air ticket had been paid.

Payment Voucher No 944 of 31 March 2013 through the G-Pay System was used to effect these payments in individual/personal accounts of the MCA's for a total sum of Kshs.4,693,860. An additional payment to a hotel of Kshs.581,400 was also settled vide cheque No 000568 on 3 April 2014 for conference charges.

However, the following issues were observed during audit review and were inadequately addressed by the County Assembly;

- Travel evidences and/or attendance, check – in registers to the conference by all MCA's since they received payments in advance were not provided to confirm that indeed they travelled and attended the conference and that the charge on public funds was proper.
- Payment of the conference package of Kshs.581,400 allegedly paid to a hotel in Mombasa seems not to have been acknowledged by way of issue of an official receipt by the establishment.

In the circumstance, Kshs.5,275,260 paid from Domestic Travel, Subsistence and Transportation costs vote could not be confirmed.

Recommendation

- The Management of Kitui County Assembly should recover the unsupported allowances of Kshs.5,275,260 from the responsible MCAs/persons and ensure that public funds are prudently utilized in future.

4.2 Allowances paid to MCA's while on Conference in Kasarani

The Chairman of the County Assembly Speakers Forum on behalf of the Leadership and Executive Committee invited all members of the County Assembly vide letter ref. CASF/CA/1/13 of 9 September 2013, to a one day consultative conference on Role of County Assemblies in Devolution-way forward, on 14 September 2013 at Kasarani.

Kitui County MCA's were initially paid two (2) night – outs each for this workshop at a daily rate of Kshs.8,000 for the 14 and 15 September 2013 and a lump sum two – way transport allowance of Kshs. 3,000 each. These were effected vide the following payment vouchers from the Operations Account.

- a) Payment Voucher No 75/2013 and Cheque No 000043 both of 11/09/2013 for Kshs.936,000 as night – outs for 57 MCA's each receiving Kshs.16,000 and the speaker receiving Kshs.24,000.

b) Payment Voucher No 66/2013 and Cheque No 000041 both of 11/09/2013 for Kshs.171,000 as transport allowances for all the 57 MCA's only.

In unexplained circumstances, an additional/extra one-night was paid to all the MCA's at Kshs.8,000 each and Kshs.12,000 for the speaker for a total Kshs.468,000 vide Payment Voucher No 81/2013 and Cheque No 000047 on 13 September 2013.

It is imperative to note that no justification warranted any payment on any of these night-outs except for the transport allowances considering the distance between Kitui and Nairobi and the fact that the workshop was only for one (1) day.

Further, no evidence was adduced on whether the MCA's travelled and attended the workshop.

Recommendations

- The management should recover Kshs.480,000 from the concerned MCAs and the speaker.
- The management of Kitui County Assemblies should ensure that public funds are prudently utilized. They should recover the excess/unsupported allowances from the responsible persons.

4.3 Expenditures on Foreign Travel

During the year under review, MCA's from Kitui County travelled to Israel between 10 January 2014 and 31 January 2014 in two groups for an educational study tour. The tour focused on various sectors including: agriculture and food processing, afforestation and environmental conservation, water resources management, tourism/cultural heritage, education, infrastructure, land and housing, security, information and communication technology, industrialization, governance and democracy.

The tour costed Kshs.34,550,000 of public funds paid as allowances and air tickets to the MCA's and staff.

No documentary evidence was adduced to confirm that all persons who were paid indeed travelled such as air-tickets or copies of the passports.

Recommendations

- The amount of Kshs.34,550,000 does not meet criteria of a charge on public funds and should be recovered from the MCAs and staff concerned.

- The management of Kitui County Assembly should ensure public funds are prudently managed by organizing only relevant trips preferably at the committee level and submit back to office report on the study tour and provide all supporting documents for audit review.

4.4 Foreign travel to Singapore and Hong Kong China

An invitation by KCA University was extended to County Assembly Service Board members, Leaders of Majority and Minority, Liaison committee members and the Clerk to Singapore for capacity building. Seventeen (17) MCAs and two assembly staff travelled from 28 April 2014 to 1 May 2014. Eight staffs travelled to Hong Kong - China for resource mapping study tour on 26 June 2014 to 1 July 2014.

These tours cost Kshs.19,969,132.00 of public funds on air travel, subsistence allowances and hire of hall charges.

However, the following anomalies were observed:

- I. The Assembly ought to have made a notification to Ministry of Foreign Affairs three months in advance for purposes of proper coordination. No evidence was adduced for audit purposes to confirm that such a notification was made.
- II. There was no specific and structured training program and itinerary for the tour together with appointments for various places that were intended to be visited provided.
- III. It is not known what benefits, direct or indirect, the public in Kitui County gained.
- IV. No evidence was adduced to confirm that Attic Tours and Travel that procured air tickets for these trips was competitively sourced. As a result, Kshs.4,954,420.00 paid to the tour company for purchasing of the air tickets was in contravention of the Public Procurement and Disposal Act, 2005.
- V. No disclosure was made on how this need of travel to Singapore and Hong Kong China was initiated.
- VI. No report has been tabled in the Assembly on the tour.

Recommendations

- The amount of Kshs.19,969,132.00 should be recovered/surcharged on all the seventeen MCAs and two staff who were involved.
- The management of Kitui County Assembly should adhere the Public Procurement and Disposal Act, 2005 and ensure that the public funds are essentially managed to

give direct benefits on the residents of Kitui County. The MCAs benefiting from such trips should prepare reports to be adopted by the Assembly.

5.0 Unaccounted for Motor Vehicle Fuel worth

During audit, it was observed that records on fuel usage including the bulk fuel register were not accurately maintained. The fuel drawn by the motor vehicles could not be accounted for in the fuel register, transport work tickets or supported by relevant documentation.

Consequently, fuel worth Kshs.2,742,298 could not be accounted for, although management has indicated that the County Assembly was just starting and in the process of forming structures for its operations.

Recommendations

The Accounting Officer of Kitui County Assembly should;

- Detail orders be used to draw any fuel on approval of the Transport officer or authorized officer
- Issue work tickets through the custodian department upon completion and surrender of the earlier one or on end month. The same should be properly filed in the individual vehicles file.
- Ensure that only one work ticket to be issued to any single vehicle at any given time.
- Analyze fuel consumption of each vehicle against mileage covered and any deviations are investigated.
- Reconcile the supplier's statements regularly.
- Provide supporting documents for the fuel of Kshs.2,742,298 allegedly consumed in the year.
- The unaccounted for fuel amount of Kshs.2,742,295.00 should be surcharged on the responsible County Assembly officers.

6.0 Untaxed Airtime

During audit, it was noted that MCA's and some Assembly staff are paid/given airtime cash benefit which is not taxed.

Further, airtime payment vouchers for the month of November 2013 and January 2014 for MCA's and for March 2014 for assembly staff were not made available for audit review.

Recommendations

- The management of Kitui County Assembly should adhere to the taxation guidelines on employment benefits, hence all airtime paid in cash should be taxed at the rate of 30% and the same remitted to Kenya Revenue Authority.
- The tax unremitted should be recovered at 30% rate from the beneficiaries of airtime and remitted to Kenya Revenue Authority as per Appendix II and III.

7.0 Unauthorized Payments

During audit, it was observed that payments amounting to Kshs.8,525,865 paid from the operations account of the County Assembly were processed without complete authorizations by the Accounting Officer and the Finance Officer or their alternates as required. This implies that this internal control is not adhered to and hence expenditure of Kshs.8,525,865.04 could not be confirmed as a proper charge on public funds.

Recommendation

- The County Assembly management should recover Kshs.8,525,865 as per Appendix IV.
- The management of Kitui County Assembly should ensure that all future payments are properly authorized and recover any unsupported and unauthorized payments.

7.1 Failure to Adhere to Controls/Procedures as Set out in Regulations

LPO and LSO books are used as a commitment by the institution to a supplier that funds are available to pay for goods delivered, works done or services rendered as ordered. It also sets out the specifications of the goods to be delivered or the service to be rendered. These re-numbered/serialized forms must be filled in all the details including the contract/quotation/tender number and the date of issue or receipt. These are filled in four copies. The original is retained by the supplier, duplicate is attached to any contract documents between the supplier and the procuring entity the triplicate is attached to the payment voucher for payment purposes and the quadruplicate copy remains in the pad

The payments of Kshs.1,443,970 relating to supply of goods and services attached either original or duplicate copies of the LPO's as opposed to the triplicate copies as required.

There is the risk that the retained documents may be used to make other additional payments in future if these requirements are not observed. These are weaknesses in internal control which casts doubt on the adherence to the Procurement Procedures.

Recommendation

The management of Kitui County Assembly should ensure compliance with the procurement regulations and procedures.

8.0 Inadequacy in Fixed Assets Register Maintenance

The Kitui County Assembly has acquired assets, mainly furniture and fittings, computers/ laptops, since its inception worth Kshs.9,060,440.

However, a scrutiny of the fixed asset register maintained revealed that it is scanty in details. The assets have no systematic numbering technique / tag/ identification numbers save for the equipment that has serial numbers from the manufacturer.

It is worth noting that furniture and other fittings that have been issued to MCAs Ward offices located across the county have not been safeguarded from loss considering that their useful life is beyond the term of the current office holders.

Recommendation

The management of the Kitui County Assembly to ensure that all assets are safeguarded from loss by systematically being tagged and ensure surrender of the assets issued to all officers and other custodians including MCAs on exit or on expiry of their term.

9.0 Human Resources

9.1 Lack of human resource manuals, Scheme of Service, Terms and Conditions of service

The Kitui County Assembly Service Board had not caused formulation and approval of the human resource manuals for use in the administration of the staff of the County Assembly.

The manuals are an important tool in human resource management, performance management, job description, annual leave management, staff discipline among others.

Recommendation

The management of Kitui County Assembly should put in place the stated lacking manuals to guide the management of human resource

9.2 Overpaid MCAs Salaries

The Assembly paid two increments in gross pay to all 39 elected MCAs in the month of March 2014 instead of one increment as per the SRC circular stated above. Each MCA was awarded an increment of Kshs 20,624 per month as opposed to Kshs.10,312. Therefore, in the period from March 2014 to June 2014, an overpayment of Kshs.1,608,672 in salaries was irregularly paid.

Further, the increments were effected on 1 March 2014 instead of 1 April 2014, thus overpaying MCAs salaries by Kshs.402,168.

Recommendation

- Recover the overpayment of salaries of Kshs.1,608,672 plus March 2014 arrears of Kshs.402,168 from the thirty nine (39) MCAs.
- Ensure compliance with Salaries and Remuneration Commission issued circulars

10.0 Car Loan Scheme

The Kitui County Assembly approves Supplementary budget for the financial year 2013/2014 on 28 May 2014 which included a car loan to MCAs of Kshs.116,000,000.

To operationalize the facility, and pursuant to provisions of Section 116 subsection 1 of the Public Finance Management Act No 18, 2012, the assembly's session of 15 April 2014 approved the Kitui County Assembly Car Loan (Members) Scheme Fund Regulations 2014. Among other provisions, these regulations required the County Executive Committee (CEC), Finance and Economic Planning to appoint an Administrator of the Fund. This appointment was duly effected on 3 June 2014 through letter ref. CGOK/FEP/4/59A/26 which required the administrator – Clerk of the County Assembly- to ensure that all legal provisions relating to management of public funds and the regulations are adhered to.

The County Assembly Service Board (CASB) in May 2014 invited commercial banks with local branch networks in Kitui town to show/ express interest to partner in issuance of these loans.

On their deliberations and after presentations by the banks, the CASB 56th Ordinary sitting held on 28 May 2014 vide minute ref MIN: KCASB/94/2014, resolved to appoint Co-operative Bank of Kenya Limited as the schemes' administrator.

In unclear circumstances, the Speaker, the Clerk and the Senior Legal Counsel signed on behalf of the County Assembly Service Board a Service Level Agreement on 11 June 2014 with Family Bank. No documents were made available showing deliberations on how and why the decision of the CASB referred to above was overturned to settle on Family bank instead of Co-operative bank. In absence of documentary evidence on how

Family Bank was identified, we cast doubt on the authenticity of the process applied to procure these services.

Consequently, on 30 June 2014, the Kitui County Treasury transferred directly Kshs.116,000,000 of public funds to Kitui County Assembly Account No 072000025095 held at Family Bank Kitui branch to disburse car loans to MCAs.

In an attempt to establish that these public funds are secure and safeguarded against loss, our audit further scrutinized how the loans were disbursed and whether regulations were adhered to.

However, the following observations were made.

- a. The Clerk of the assembly, being the administrator of this fund, had written to the Chief Officer, Finance and Planning vide his letter ref CAK/15/2/1(149) had on 9 June 2014 requesting that the said funds be transferred to Kitui County Assembly Operations account number 1143459695 held in KCB Kitui branch.

No explanation was offered why the said funds amounting to Kshs.116,000,000 were directly transferred to the Family bank account.

- b. Fifty six Members of County Assembly applied and were individually loaned Kshs.2,000,000 each except for two (2), who applied for Kshs.1,200,000 and Kshs.1,300,000 respectively. This was implementation of the decision of the Car Loan Management Committee in its 13th ordinary sitting held on 8 July 2014 that passed a resolution that all MCAs except the two be approved a loan of Kshs.2,000,000 through minute reference MIN.35/CLM/2014 on Verification, Endorsement of car loan application forms and attaching of agreement forms.

This was regardless of the value of the car/ motor vehicle individual MCAs had identified to purchase.

- c. In disregard of the Car Loan regulations and the provisions contained in the Service Level Agreement between the County Assembly and Family Bank, all the loan amounts were disbursed to the MCAs bank accounts instead of the sellers' accounts.

No explanation was given for this non-conformity yet there was no evidence of review of this requirement.

- d. The administrator appointed by the County Minister for Finance and Economic Planning, in accordance with the law and the regulations passed, seem not to have been involved in the process of loan application and processing to an extent of not endorsing the car loan application and agreement forms.

His role in administering this fund, considering that he is the accounting officer of the assembly, was usurped by the Car Loan Management Committee against the requirements of Section 116(2) of the Public Finance Management Act, 2012

- e. According to valuation reports, thirty three (33) MCAs received loan amounts beyond the value of the vehicles they had identified to secure these loans with. The chairman of the car loan management committee, Hon Jackson Maundu P/No 1979043994, had his car valued the least at Kshs.300,000 yet he obtained the full disbursement of Kshs.2,000,000.

This and others as shown in the (**Appendix 1**) Cast doubt on whether the motor vehicles were indeed purchased or it was a transfer of their old ones and the loans used for other purposes.

As a result, Kshs.66,450,000 of public funds remains unsecured by processing loans not equivalent to the value of the securities granted.

- f. Further, no valuation reports seem to have been done for seven (7) MCAs. (**Appendix 2**). MCA for Mui ward, Musee Mulongo, presented a valuation report of 4 July 2013.
- g. Only thirty (30) MCAs who benefitted from these loans have surrendered their logbooks for joint registration with the bank.

Consequently, full repayments and/or recoveries of these loans are not guaranteed.

- h. Some beneficiaries of the loan did not comply with the 1/3 rule on the net salary to an extent that monthly deductions cannot be fully implemented.
- i. In addition to the bank charging a 2.5% interest on the loan amounts, the bank fixed the entire fund money of Kshs.116,000,000 for the period to July 2017. No disclosure was made in the Service Level Agreement of such a transaction and whether the interest earned will be surrendered to the Assembly or credited to the fund.
- j. More than twenty two (22) MCAs as shown in the appendix were identified to have bought or presented ownership documents for vehicles that were over seven (7) years old in disregard of the regulations that required all vehicles year of manufacture not to be older than 2007.

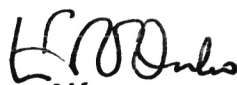
It cannot be confirmed that these MCAs indeed bought the vehicles or presented documents of vehicles that they originally owned. Further, there is a risk that the loans are not fully secured.

Recommendations

- The Kitui County Assembly management should adhere to the car loan regulations and provide additional security for the loan for those who received loan beyond the value of the vehicle acquired.
- Further, there is need for a joint registration of logbooks with the bank for those MCAs who have not done.
- Ensure that Family Bank obtains additional and adequate security on these loans.
- Recover the amount of Kshs.66,450,000 advanced from salaries/allowances where no car logbook security is provided or security value is less than amount of loan (Appendix 1C)

Conclusion

I wish to thank the management of Kitui County Assembly for their cooperation and assistance extended to the staff during the period of the audit assignment.



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

22 May 2015

Appendix 1 on MCAs Foreign Trips

A. Capacity building seminar in Singapore

PV No	Date	Cheque no.	Payee	Amount Ksh
1148/14	23-4-14	650	Britam Insurance	62,213.00
1166/14	28-4-14	662	Attic tours and travel	3,685,620.00
1147/14	22-4-14	649	KCB	1,272,976.00
1143/14	„	646	Co-op Bank	760,392.00
1142/14	„	646	Co-op Bank	425,992.00
1142/14	„	645	Equity bank	425,992.00
1141/14	„	645	Equity bank	3,407,936.00
1144/14	„	647	Family bank	1,703,968.00
1149/14	„	651	KCA university	<u>4,077,400.00</u>
			TOTAL	15,822,489.00

B. Seminar on Resource Mapping in Hong Kong China

1512/14	24-6-14	868	Coop bank	284,560.00
1514/14	„	870	KCB	153,896.00
1513/14	„	869	EQUITY	615,584.00
1511/14	„	867	FAMILY BANK	153,896.00
1523/14	„	873	Clerk County Assembly	316,800.00
1515	25/6/2014	RTGS	KCA University	1,448,000.00
1510/14	„	866	Attic Tours	<u>1,268,800.00</u>
			TOTAL	4,241,536.00

Appendix 1C CAR LOANS

MCA	Ward	Car value/Guarantee	Loan Disbursed	Amount Not guaranteed	Reg No	Year of Manufacture
Jacob Kilonzi Maundu	Nuu	300,000.00	2,000,000.00	(1,700,000.00)		
Mary Mukina Mbandi	Nominated	400,000.00	2,000,000.00	(1,600,000.00)	KAZ 901C	2000
Nzuki Wambua	Kanyangi	540,000.00	2,000,000.00	(1,460,000.00)	KBU 613V	2005
Felix Kinuva Kauvi	Miambani	620,000.00	2,000,000.00	(1,380,000.00)		
Hussein Mwandia	Ikutha	640,000.00	2,000,000.00	(1,360,000.00)	KBV 640L	2006
Anthony Kyalo Muthui	Matinyani	700,000.00	2,000,000.00	(1,300,000.00)	KAR 510E	1996
Boniface Maundu Katumbi	Kyangwitya	710,000.00	2,000,000.00	(1,290,000.00)	KBN 288N	2005
Titus Ndemwa Mbiti	Nguutani	720,000.00	2,000,000.00	(1,280,000.00)	KBV 304D	2006
Robinson Mutwii Mativo	Nzambani	730,000.00	2,000,000.00	(1,270,000.00)	KBV 495C	2006
Vestantina Mwasi Chawana	Nominated	750,000.00	2,000,000.00	(1,250,000.00)	KBZ 392J	2008
Joyce Mwende Mutemi	Kyome/Thaana	765,000.00	2,000,000.00	(1,235,000.00)	KBT 164Y	2005
Allan Kithikii Kavindi	Mutha Yatta/ Kwa	765,000.00	2,000,000.00	(1,235,000.00)	KBV 178C	2006
George Souza Kililiku	vonza	810,000.00	2,000,000.00	(1,190,000.00)	KBH 991L	1998
Stephen W. Kiluu	Kithumula	820,000.00	2,000,000.00	(1,180,000.00)		
James Mutunga Munuve	Kanziko	870,000.00	2,000,000.00	(1,130,000.00)	KBT 140C	2005
Peter Mwikyo Kilonzo	Athi Ward	900,000.00			KBV	2006

Appendix 1C CAR LOANS

			2,000,000.00	(1,100,000.00)	139N KBH	
Mulongo S. Musee	Mui	950,000.00	2,000,000.00	(1,050,000.00)	411M	2002
Deisy Maithya Mukala	Waita	1,000,000.00	2,000,000.00	(1,000,000.00)		
Ikunga Samuel Muriungi	Tharaka	1,150,000.00	2,000,000.00	(850,000.00)	KBZ 904K	2007
Nelson Kitema Kilonzo	Nguni	1,150,000.00	2,000,000.00	(850,000.00)	KBZ 129C	2007
Daniel Kimanzi Ngoima Jackson Nzangi	Township	1,300,000.00	2,000,000.00	(700,000.00)		
Mwanduka	Mutomo	1,300,000.00	1,300,000.00	-		
John Kimanthi Nyamai		1,400,000.00	2,000,000.00	(600,000.00)		
Nzyoni Manguye	Voo/ Kyamatu	1,810,000.00	2,000,000.00	(190,000.00)	KBU 772D	2006
Tito Grogan Mbivi	Mbitini	Valuation not seen	2,000,000.00	(2,000,000.00)	KBZ 443W	
Alex Mutambu Nganga		Valuation not seen	2,000,000.00	(2,000,000.00)		
Patricia Kisio Kimanzi	Kivou	770,000.00	2,000,000.00	(1,230,000.00)	KBZ 582R	2007
Angela Kanza Mwanthi		Valuation not seen	2,000,000.00	(2,000,000.00)		
Stephen Mwenda Kithuka	Mutonguni	Valuation not seen	2,000,000.00	(2,000,000.00)		
Rodah Kalumu Wambua	Nominated	Valuation not seen	2,000,000.00	(2,000,000.00)	KBY 904Y	2007
Jamhuri Mwango Catherine Munanye Kasimu	Ikanga/ Kyatune	Valuation not seen	2,000,000.00	(2,000,000.00)		
		2,100,000.00	2,000,000.00		KBZ 278P	2007

Appendix 1C CAR LOANS

Beatrice Velesi Musyoka		Valuation not seen	2,000,000.00	(2,000,000.00)		
Joseph Nzungi Ngwele	Ngomeni	400,000.00	2,000,000.00	(1,600,000.00)	KBM 029D	2003
Dominic Kilonzo Kauthi Anastacia Mwathi Mutunga	Tseikuru Mutito/Kaliku	Valuation not seen 2,150,000.00	2,000,000.00	(2,000,000.00)	KBZ 558P	2007
Peter Maithya Mutemi	Kiomo/Kyethani	Valuation not seen	2,000,000.00	(2,000,000.00)	KAR 043N	
Musau Kalovo	Kisasi	Valuation not seen	2,000,000.00	(2,000,000.00)		
Ruth Malinda Kinyumu	Nominated	2,280,000.00	2,000,000.00		KBZ 426C	2007
Jennifer Nzambi Munuve	Nominated	2,300,000.00	2,000,000.00		KBZ 514B	2007
Colleta Koli Kimanzi	Nominated	Valuation not seen	2,000,000.00	(2,000,000.00)		
Irene Cherotich Muvea		1,200,000.00	1,200,000.00	-		
Phoebe Bernard Kisee	Nominated	2,400,000.00	2,000,000.00		KBZ 824K	2007
Jane Mutua	Kauni	2,430,000.00	2,000,000.00		KBX 200C	2006
Mary Ndumbu Mbithi	Nominated	2,500,000.00	2,000,000.00		KBZ 097Z	2007
George Mutua Ndotto	Speaker	3,500,000.00	2,000,000.00		KBX 532C	2008
Angeline Mbula Muthui	Kyuso	3,600,000.00	2,000,000.00		KBW 909R	2006
Francis Kilonzi Mwalili	Chuluni	Valuation not seen	2,000,000.00	(2,000,000.00)	KBV 229Y	2006
Jane Mueni Muli	Nominated	Valuation not				

Appendix 1C CAR LOANS

		seen	2,000,000.00	(2,000,000.00)		
Johnray Ngungu Ngava	Kyangwithya	2,070,000.00 Valuation not	2,000,000.00		KBV 764C	
Eunice M. Katheke	Zombe/Mwitika	seen Valuation not	2,000,000.00	(2,000,000.00)	KBS 640F	2005
Mwendwa Munyoki Patrick Munyithya Mutemi	Mulango Nominated	seen Valuation not seen	2,000,000.00	(2,000,000.00)	KAQ 845K KBZ 415P	1996 2007
Titus Munyoki Kasinga Benard Mwangangi Munyasya	Nominated Central	580,000.00 Valuation not seen Valuation not	2,000,000.00	(1,420,000.00)	KBT 078Q	2005
Mwove Kinyala	Endau/Malalani	seen	2,000,000.00	(2,000,000.00)	KAU 417Q	1998
				(66,450,000.00)		