



THE SENATE

ELEVENTH PARLIAMENT-FOURTH SESSION



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REPORT OF THE SENATE SESSIONAL COMMITTEE ON COUNTY  
PUBLIC ACCOUNTS AND INVESTMENTS ON THE INQUIRY INTO THE  
FINANCIAL OPERATIONS OF KISHI COUNTY EXECUTIVE FOR THE  
FINANCIAL YEAR 2013/2014 (1<sup>ST</sup> JULY, 2013 TO 30<sup>TH</sup> JUNE, 2014)

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Recommended for approval  
for tabling.  
Eg 13/06/18

Rt-Hon. Speaker  
You may approve  
for tabling.  
13/06/18

Approved  
*[Signature]*  
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THE SENATE  
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## ACRONYMS/ABBREVIATIONS

AG	- Auditor General
CASB	- County Assembly Service Board
MCA	- Member of County Assembly
ITRGC	- Intergovernmental Relations Technical Committee
SO	- Standing Orders
OAG	- Office of the Auditor General
PFM	- Public Finance Management
VAT	- Value Added Tax

## PREFACE

**Mr. Speaker Sir,**

Committees are a creation of the Constitution through Article 124(1) of the Constitution which empowers each House of Parliament to establish Committees and make Standing Orders (SO) for the orderly conduct of its proceedings, including the proceedings of its Committees.

The Senate Sessional Committee on County Public Accounts and Investments is established by the Senate pursuant to Standing Order No. 212 and is mandated:-

- a) Pursuant to Article 96(3) of the Constitution, to exercise oversight over national revenue allocated to the county governments,
- b) Pursuant to Article 228(6) of the Constitution, to examine the report of the Controller of Budget on the implementation of the budgets of county governments,
- c) Pursuant to Article 229(7) and (8) of the Constitution, to examine the reports of the Auditor-General on the annual accounts of the county governments,
- d) To examine special reports, if any, of the Auditor-General on county government funds,
- e) To examine the reports, if any, of the Auditor-General on the county public investments, and
- f) To exercise oversight over county public accounts and investments

**Mr. Speaker Sir,**

The membership of the Committee comprises of the following Senators:-

1. Sen. (Prof.) Anyang Nyong'o - **Chairman**
2. Sen. (Prof.) John Lonyangapuo - **Vice Chairman**
3. Sen. Henry Tiolo Ndiema
4. Sen. Wamatangi Kimani
5. Sen. Karue Muriuki
6. Sen. Hassan Omar Hassan
7. Sen. Wangari Martha
8. Sen. Paul Njoroge Ben
9. Sen. Sitswila Wako Amos
10. Sen. (Dr.) Boni Khalwale
11. Sen. Liza Chelule, MP
12. Sen. Stephen Ole Ntutu

**Mr. Speaker Sir,**

The Committee was first constituted on 27<sup>th</sup> March, 2014 pursuant to Senate Standing Order 181 following a resolution of the House on Thursday 27<sup>th</sup> February 2014 to amend the Senate Standing Orders. The Committee was subsequently reconstituted on 17<sup>th</sup> February, 2015 Pursuant to Senate Standing Order 210(1) which requires *Sessional Committees* to be reconstituted at the Commencement of every session.

**Mr. Speaker Sir,**

The Senate Sessional Committee on County Public Accounts and Investments is the avenue through which the Senate under the provisions of Article 96(3) of the Constitution carries out the ex-post scrutiny of County Governments Budgets.

**Mr. Speaker Sir,**

The Committee largely relies on the report of the Auditor General and the Controller of Budget as key instruments for its ex-post scrutiny of County Governments Budgets.

**Mr. Speaker Sir**

The Office of the Auditor General on various dates from the month of June, 2015 forwarded reports on the financial operations of the County Governments for the financial year 2013/2014 to the Senate pursuant to the provisions of Article 229(7). As such, the Report of the Financial Operations of County Executive for the period 1<sup>st</sup> July, 2013 to 30<sup>th</sup> June, 2014 was tabled on 30<sup>th</sup> June, 2015 and stood committed to the Sessional Committee on County Public Accounts and Investments.

The Committee held two meetings with Kisii County Executive on 29<sup>th</sup> September, 2015 and on 2<sup>nd</sup> October, 2015 where it considered and concluded its investigation on the report of the Auditor General under review.

The Committee received evidence from the Governor as the Chief Executive Officer of the County Government pursuant to the provisions of Article 179(4) of the Constitution of Kenya, 2010.

The main issue for determination and investigation was the various audit queries contained in the report of the Auditor General on the Financial Operations of Kisii County Executive for the financial year 2013/2014(for the period 1<sup>st</sup> July, 2013 to 30<sup>th</sup> June, 2014).

This report is issued pursuant to the requirements of Articles 96 (3) and 229(8) of the Constitution of Kenya and the Senate Standing Order 203.

**Mr. Speaker Sir,**

The Committee in arriving at particular recommendations in this particular report of the Auditor General on the Financial Operations of Kisii County Executive took into account the challenges faced by Counties at their nascent days particularly during the financial year 2013/2014.

The Committee was further guided by the mandate of the Senate pursuant to the provisions of Article 96(1) of the Constitution; particularly the need to strike a balance between protection of the counties vis-a-vis the oversight role of the Senate over counties in accordance with the provisions of Article 96(1) and 96(3) of the Constitution respectively.

The Committee further structured its deliberations and decisions in the following manner:-

- (i) **Unlawful expenditure:** In this category, the expenditure in question could not be justified under any circumstances. In instances like this, the Committee recommended immediate recovery of funds from the recipients or surcharge of the individuals who received the funds.
- (ii) **Instances where procurement rules were not followed but goods and services were supplied as per the details of the requisition:** In instances where the County Government entity used restricted tendering method instead of open tender method but goods were delivered as per the details of the Local Purchase Order, the Committee depending on the oral and written submissions recommended that the respective accounting officers be reprimanded for not following the Public Procurement Rules and Regulations and be required to submit a report to the Senate on administrative actions and austerity measures taken to mitigate against committal of similar offences in the subsequent financial years. However any fraudulent application of funds remained an offence punishable by law notwithstanding the foregoing.
- (iii) **Instances where procurement rules were not followed and the Committee could not ascertain whether the public funds were used prudently:** The Committee recommended that the office of the Auditor General undertakes the *value for money audit* on that specific project and submit a report to the Senate expeditiously and the officer who authorized the expenditure be punished or depending on the gravity of the offence and circumstances surrounding the committal of the offence.
- (iv) **Instances where procurement rules were not followed and goods and services delivered or provided did not match the specification of the goods requested through the LPOs:** The Committee took the view that this was a fraudulent transaction and recommended that the officer who authorized payment should be surcharged and held personally liable for the loss of public

funds in question. In addition, the committee recommended that disciplinary action be taken against the culprits.

- (v) **Instances where an irregularity occurred and the County Government entity detected it and took disciplinary action against the officers involved:** The Committee considered these on a case to case basis and in most cases where the action taken was satisfactory, the committee cleared the audit query and no further action was recommended. However, where the action taken was unsatisfactory, the Committee recommended additional punishment or mitigative measures.
- (vi) **Instances where procurement rules were not followed but the Committee ascertained that no public funds were lost in the transaction:** The Committee recommended that the officer(s) who authorized or sanctioned the committal of the irregularity be reprimanded notwithstanding the fact that no public funds were lost.
- (vii) **Instances where the County Government entity failed to submit the required documents during the time of audit but subsequently submitted the documents to the Auditor General and the documents were examined and the Auditor General was satisfied with the evidence submitted:** The Committee cleared the audit query but recommended that the County Government entity should submit the documents to the Auditor General at the time of audit.

## EXECUTIVE SUMMARY

The Committee was first constituted on 27<sup>th</sup> March, 2014 pursuant to Senate Standing Order 181 following a resolution of the House on Thursday 27<sup>th</sup> February 2014 to amend the Senate Standing Orders. The Committee was subsequently reconstituted on 17<sup>th</sup> February, 2015 Pursuant to Senate Standing Order 210(1) which requires *Sessional Committees* to be reconstituted at the Commencement of every session.

In the execution of its mandate, the Committee relied on the report of the Auditor General on audited Accounts of Kisii County Executive for the Financial year 2013/2014(1<sup>st</sup> July, 2013 to 30<sup>th</sup> June, 2014) as the primary document for the investigation.

The Committee invited the Governor for Kisii County in his capacity as the Chief Executive Officer of the County Government pursuant to Article 179(4) of the constitution to respond to the audit queries raised in the report under consideration.

The Committee began its work by scheduling a meeting for evidence taking where the Governor was invited to respond to audit queries raised by the Auditor General in the report under consideration on 3<sup>rd</sup> September, 2015 and on 2<sup>nd</sup> October, 2015.

The Committee considered and concluded its inquiry into the report of the Auditor General on the Financial Operations of Kisii County Executive for the Financial Year 2013/2014(1<sup>st</sup> July, 2013 to 30<sup>th</sup> June, 2014).

This report documents the observations and recommendations of the Committee on each audit query and it is divided into four parts.

The preface details the place of Committees in the Constitution, Committee establishment and mandate, Committee membership and formation, the niche of the Committee in the Senate, the executive summary, key observations and recommendations and acknowledgement.

Chapter one contains a background to the report of the Auditor General under consideration. Chapter two is a record of the audit queries as raised by the Auditor General in the report under review and Committee's observations and recommendations on each audit query.

Chapter three captures the Committee's findings and observations on the entire report of the Auditor General on financial operations of Kisii County Executive for the Financial Year 2013/2014(1<sup>st</sup> July, 2013 to 30<sup>th</sup> June, 2014).

The General findings and observations are:



- Imprest surrender was not properly supported by necessary documents;
- The County Executive may have suffered from procurement capacity challenges at the dawn of devolution; and
- The County Executive use locally collected revenue at source without first banking it in the County Revenue Fund.

Chapter four contains the recommendations of the Committee on the entire report of the Auditor General on financial operations of Kisii County Executive for the Financial year 2013/2014(1<sup>st</sup> July, 2013 to 30<sup>th</sup> June, 2014).

The General recommendations are:

- Status of recovery of imprest issued to MCAs to be provide by the accounting officer.
- Deduction of County Governments' funds at source be further investigated to assist counties cut on wage bill;
- Public Procurement and Disposal Act, 2005 and related Regulations of 2006 should be followed to ensure that goods, services and contracts are procured and sourced competitively;
- The County Executive to institute mechanisms to ensure recruitment and placement of staff is according to skill and capacity;
- The County should develop a document management policy; and
- The County Executive should prepare a supplementary estimates for revised budgets and seek authority from the County Assembly for such revisions.

## **ACKNOWLEDGEMENTS**

The Committee wishes to acknowledge the support it received from the Office of the Speaker and the Clerk of the Senate in undertaking its work.

The Committee further appreciates the support it received from the office of the Auditor General and the cooperation from the office from the Governor and the County Executive of Kisii County during the consideration of the Audit Queries.

Final appreciation goes to the distinguished and dedicated members of the Committee who created time out of their busy schedule to attend and actively participate in the proceedings of the Committee.

**Mr. Speaker Sir,**

I wish to confirm that the resolutions of the Committee on the observations and recommendations of the Committee in this report were unanimous.

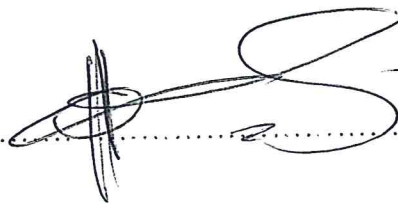
**Mr. Speaker Sir,**

This report is issued in accordance with the provisions of the Senate Standing Order 203.

**Mr. Speaker,**

It is therefore my pleasant duty and privilege, on behalf of the Senate Sessional Committee on County Public Accounts and Investments to table this report and commend it to the House for debate and adoption pursuant to the provisions of the Senate Standing Order 203(6).

SIGNED:

 Moses Ofrans Kajwang

DATE:

06/06/2018



SEN. (PROF.) ANYANG' NYONG', MP

CHAIRPERSON

## CHAPTER ONE

### **1.0 Background to the report**

Following the submission of the report of the Auditor General on the Financial Operations of Kisii County Executive for the Financial year 2013/2014(1<sup>st</sup> July, 2013 to 30<sup>th</sup> June, 2014) to the Senate pursuant to the provisions of Article 229(7), the report was laid on the table of the House on 30<sup>th</sup> June, 2015 and stood committed to the Sessional Committee on County Public Accounts and Investments.

The Committee subsequently invited the Governor for Kisii County to its investigatory meetings held on 3<sup>rd</sup> September, 2015 and 2<sup>nd</sup> October, 2015 to give evidence and respond to the audit queries raised in the report under consideration. This was pursuant to the provisions of Article 179(4) of the constitution of Kenya, 2010.

The Committee considered and concluded its consideration of the said report in two sittings and thereafter adopted the report during its sitting on 5<sup>th</sup> April, 2017.

## CHAPTER TWO

### 2.0 AUDIT QUERIES

#### 2.1 CURRENT ASSETS

##### 2.1.1 Imprest Management

- i. An imprest of Kshs.2,892,000 was issued to an officer to cater for accommodation and travel for the County officers' retreat held in Mombasa from 22 September to 4 October 2013. The surrender did not have relevant documentation namely; letters of invitation, details of transport used, contract agreement with the Hotel and attendance register.

##### **Management Response**

The Governor admitted to the Audit Query and informed the Committee that-

The County Government had organized a joint retreat for County Executive and County Assembly to orient themselves with the new County Government structures, Bonding and team building. An imprest was issued to the Accountant to cater for Per diems, travel costs and incidental expenses. Mombasa Beach Hotel is a Government Agency whose rates are standard and therefore there was no need of a negotiated agreement between the hotel and the County Government of Kisii. The invitation letter for the retreat, details of transport used and attendance register have been provided and are marked as Annex 1

##### **Auditor's Remarks**

The Auditor confirmed to the Committee that all documents (the invitation, attendance register and the means of transport to Mombasa) had been a vailed for audit verification and were satisfied.

##### **Committee Observation**

The Committee observed that there was no money lost.

##### **Committee Recommendation**

The Committee recommends that the Audit Query be cleared.

- ii. Another officer was paid Kshs.232,000 being reimbursement allowances to eight (8) officers travelling to Nairobi for uploading of budget in IFMIS system.

However on surrender, no relevant documents for the safari were attached the payment voucher. The rationale for sending eight (8) officers to upload the budget in IFMIS was also not explained.

**Management response --**

**The Governor admitted to the Audit Query and informed the Committee that-**

An imprest of Kshs. 232,000 was issued to an Accountant to cater for allowances of 8 officers who were to travel to Nairobi to learn how to upload the budget in IFMIS system. One of the officers who was already in IFMIS system received the imprest on behalf of the others, some of whom were not in the system since they had no Personal Numbers and were new employees. The rationale of sending eight officers was informed by the need to have alternative users of the system and the fact that it was the first budget under IFMIS, hence the need for training.

The email inviting the officers to Nairobi by the National Treasury together with surrender voucher is marked as Annex 2(a) was annexed as evidence.

**Auditor's Remarks:**

The auditor informed the Committee that the audit query had subsequently been resolved after the County Executive submitted the necessary documents for examination and verification.

**Committee's Observation:**

The Committee observed that although the County Executive Government had failed to provide the documents at the time of audit, the matter had been resolved.

**Committee Recommendation**

The Committee recommends that the Audit Query be cleared.

- iii. During the period under review, the County Government issued temporary imprest totaling Kshs.32, 741, 086 to staff for various journeys and purchase of goods and services but had not accounted for as at the time of audit February 2015.

**Management Response**

The Governor admitted to the Audit query and informed the Committee that an imprest of Kshs. 32,741,086 had not been surrendered by the time of the audit. The amount includes imprest given to the County Assembly since the County Executive was operating as a single entity at the time.

The imprest was subsequently surrendered. Surrender documents namely imprest warrants, vouchers and other supporting documents have been provided as a separate file and marked as File No. 1.

However, an outstanding amount of Kshs, 10,941,616 has not been surrendered and the Clerk to the County Assembly has been requested to recover the same from County Assembly payroll which they operate independently from the County Executive payroll.

An Imprest surrender schedule and a letter to recover Annex 2(b) together with an analysis of the issued imprest marked as Annex 2(c) were submitted as evidence.

**Auditor's Remarks:**

The Auditor informed the Committee that the Executive had taken action towards ensuring the imprest is surrendered. However imprest recovery from the members of the Assembly has not been fully done.

**Committee Observation**

The Committee observed that-

- The County Executive had taken steps to ensure the deductions from the members of the County Assembly are done; and
- The burden of proof of deduction was on the Clerk of the County Assembly.

**Committee Recommendation**

The Committee recommends that the Audit Query be cleared.

**2.1.2 Operations of Several Bank Accounts**

At the time of the audit the County government during the year opened sixty four (64) bank accounts both at head quarter and Sub-counties. A list of officers with authority to incur expenditure and operating of the bank accounts were not made available. Further, cash books, bank statements and bank reconciliation statements were not availed for audit verification. Management did not explain the necessity of operating so many bank accounts. Controls put in place over the operations of those banks accounts were also not explained. Consequently, control over bank operations could not be verified.

**Auditor's Remarks:**

The Governor admitted to the Audit Query and informed the Committee that the decision to open the 64 bank accounts was informed by the need to devolve accounting

and procurement functions in line with devolution principles. The idea was to operate Sub County Treasuries similar to District Treasuries. Accounts were opened in each Sub County for Health, Education, Water and Environment, Agriculture, Finance and Administration sectors. This was before the National Treasury gave a directive on operating a centralized County Treasury through IFMIS and G-PAY systems. Upon the directive, the accounts were closed.

In further mitigation, the Governor informed the Committee that since it was the early days of devolution, coordination with the sub counties was a challenge.

The list of the said accounts and their status are marked as Annex 2(d) and the Bank reconciliation statements marked as File No. 2 were submitted to the Committee as evidence.

#### **Auditor's Remarks:**

The Auditor's informed the Committee that the twenty four accounts had been verified but expressed frustration with failure to submit documents at the time of audit noting that if the documents had been availed the audit query would not have occurred.

#### **Committee Observation**

The Committee noted that the bank reconciliations and the cashbooks had been availed and verified.

#### **Committee Recommendation**

The Committee recommends that the audit query be cleared.

#### **2.1.3 Cash Transfer to Ministry of Health Headquarter**

The County Executive transferred Kshs.316,131,142 to Ministry of Health headquarter being reimbursement of salary of devolved staff for July, August, September, and October 2013. No correspondence authorizing the transfer, reconciliation between the County and Ministry records and a miscellaneous receipt issued by the Ministry on receipt of the money were availed for audit verification.

#### **Management Response**

The Governor admitted to the audit query and informed the Committee that the National Government paid salaries and other related allowances to staff performing devolved functions on behalf of the County Government. The national treasury recovered the amount paid directly at source thereby netting off the amount entitled to the county for exchequer release.

The recovery advice together with other correspondences from the National Treasury marked as Annex 3 was provided Committee as evidence.

## **Auditor's Remarks**

The auditor confirmed that the money was actually deducted at source by the National Government without reference to the County Government.

## **Committee Observation**

The Committee observed that several counties had been affected by a unilateral decision by the National Government to deduct money from Counties without reference.

## **Committee Recommendation**

The Committee recommends that the Audit Query be cleared.

## **2.2 NON-CURRENT ASSETS**

### **2.2.1 Procurement of Goods, Services and Works**

In the period under review, the Finance sector procured goods, services and works totaling Kshs.89,236,629 and the following anomalies were noted;

- i. The County through use of quotation as opposed to open tender, awarded contracts totaling Kshs.41, 396, 879 to three (3) Contractors in respect of compilation of fixed assets appraisal & valuation, renovation and networking of County Offices.

## **Management Response**

### **(i) Use of quotations totaling Kshs. 41,396, 879.00**

- a. **Compilation of fixed assets appraisal and valuation of Kisii County Kshs. 8,500,000.00.**

During this period, the County Government was new and urgently needed to know its assets to assist in preparation of the first financial statement and submission of reports required by Transitional Authority on assets to be taken over from defunct local authorities.

Arising from above, the County Government opted for restricted tendering method and floated tenders to ten pre-qualified firms.

Tender Minutes of the tender committee, extract of pre-qualification list are marked as *Annex 4*. The valuation report and asset register have been included in our responses as a **separate file** and marked as **File No. 3**.

- b. **Repairs and Renovations of part of County Executive Office Ground Floor Phase 1 contract sum of Kshs. 4,401,149.40**



The procurement method used was Request for Quotation (RFQ) as opposed to open tender since the amount was below the threshold of Kshs. 6,000,000 for open tender for works projects.

**c. Supply and Installation of Local Area Network Infrastructure at County Treasury Complex, Old Prefab Buildings and Fiber Interlink - Kshs. 13,503,644.00**

In the process of setting up county structures, there was an urgent need for installation of computer network infrastructure within the county headquarters to facilitate implementation of computer systems which were necessary for County Government Operations. There was completely no IT infrastructure in place.

The tender committee meeting held on 28th October, 2013 discussed and approved use of Restricted Tendering Method of procurement as per Public Procurement and Disposal Act 2005, Section 73 (2) (b). 10 firms were invited from the list of prequalified firms under network installation for the year 2013/2014.

The use of Restricted Tendering was occasioned by the urgent need to have the network in place to facilitate use of IFMIS, GPAY, IPPD, Revenue system and operationalize county services at the formative stages.

Use of an open tender would have taken a longer process yet the facilities were required to be in operation to support the county operations at the time.

The works were successfully completed on time and all the systems are fully operational.

The Tender minutes, Extract of the PPDA section 73(2) (b), Inspection certificate, Extract of pre-qualification list, Completion certificate and physical pictures are marked as *Annex 5*.

In mitigation the Committee heard that Kisii County was the first County to install ICT and it was verified by the Committee of the Senate on ICT.

**d. Supply and Installation of Computer Network Infrastructure at new prefabricated buildings, Blocks A, B & C - Kshs. 14,992,086.00.**

There was urgent need for installation of Network Infrastructure within the just constructed prefabricated buildings, blocks A, B & C, which were ready for occupation by county top management.

The tender committee meeting held on 28<sup>th</sup> October, 2013 discussed and approved use of Restricted Tendering Method of procurement, 10 firms were invited from the list of prequalified firms under network infrastructure for the financial year 2013/2014.

The use of Restricted Tendering was occasioned by the urgent need to operationalize the functions of the newly employed County Executive Members, Chief Officers, County Public Service Board Members, County Directors, Payroll officers who were to occupy the buildings at the time as per the provisions Public Procurement and Disposal Act 2005. Section 73 (2) (b).

Use of an open tender would have taken a longer process yet the facilities were required to be in operation to support the county operations at the time. The officers had just been recruited.

The works were completed on time successfully and all County departments are fully operational.

The Tender minutes, Extract of the PPDA section 73(2) (b), Inspection certificate, Extract of pre-qualification list, Completion certificate are marked as *Annex 6*.

#### **Auditor's Remarks**

The Auditor expressed satisfaction with the documents and the response provided.

#### **Committee Observations**

The Committee observed that there was nothing urgent about installation of ICT and although Kisii County was the first County to install ICT operations, the county should not have been in a rush to procure items without following the laid down requirements regardless of the importance.

#### **Committee Recommendation**

The Committee recommends that the Audit Query be cleared.

- ii. Contracts totalling Kshs.10,143,301 for repair & renovation, partitioning, installation of security lighting and Networking of County offices were awarded to six (6) suppliers who were not prequalified.

#### **Management Response**

The management admitted to the Audit Query and informed the Committee that the prequalification list availed during the audit was not the correct one. There was mix-up of procurement documents arising from shifting of procurement offices from Treasury building to a new procurement office. The auditors were given a hard copy of incomplete prequalification list which apparently was different from the up-to-date prequalification list uploaded in the county website. Further, the officers handling procurement then were from defunct local authorities and lacked capacity to handle procurement documents.

A prequalification list marked as *Annex 7* was submitted as evidence.

### Auditor's Remarks

The Auditor expressed satisfaction from the submitted and verified documents but expressed dissatisfaction on the mix up of documents at the time Audit.

### Committee Observation

The Committee observed that-

- The correct documents had been verified to the Auditor's satisfaction; and
- There was negligence and poor management of documents by officers in the procurement department.

### Committee Recommendations

The Committee recommends that the Audit Query be cleared.

- iii. The County awarded contracts totalling Kshs.37,696,449 to five (5) suppliers through split procurement methods for the supply of curtains & shears and Office Furniture.

### Management Response

Date of Quotation	Suppliers	Item description	Amount
21-11-2013	M/S Jebrive Investments	Supply of curtains and shears	875,980
10-1-2014	M/S Jebrive Investments	Supply of curtains and shears	1,508,940
06-12-2013	M/S Dap-Del Chapter (K) Ltd	Supply of curtains and shears	1,999,984
06-03-2014	M/S Artoffice Furniture Ltd	Supply of furniture and equipment	541,725
18-03-2014	M/S Artoffice Furniture Ltd	Supply of furniture and equipment	484,000
13-02-2014	M/S Artoffice Furniture Ltd	Supply of furniture and equipment	2,724,580
02-02-2014	M/S Artoffice Furniture Ltd	Supply of furniture and equipment	704,980
31-01-2014	M/S Artoffice Furniture Ltd	Supply of furniture and equipment	1,161,000

		equipment	
20-11-2013	M/S Viable Deco Solutions	Office furniture and equipment	16,870,260
20-11-2013	M/S Art office Furniture Ltd	Office furniture and equipment	7,770,000
20-11-2013	M/S Lee steward Investment Ltd	Office furniture and equipment	3,055,000
		<b>TOTAL</b>	<b>37,696,449</b>

The award of contracts totaling Kshs. 37,696,449 was not designed as split orders since they were requisitioned at different dates by different departments as and when need arose. Offices were being renovated and furniture and equipment were acquired at different times. Officers were being appointed or recruited at different times and therefore procurement of curtains, shears and office equipment were procured on the basis of as and when required. The flow of funds to the County was also spread prompting us to spread the contract award for the supplies to ensure timeliness on payment to suppliers.

Counter requisition and issue voucher (S11) showing the distribution and receipt of furniture by various department have been included in our responses as a **separate file** and marked as **File No. 4**.

#### **Auditor's Remarks**

The Auditor confirmed to the county that there was no financial loss on the part of the County since all the furniture was supplied and the documents submitted have since been verified.

#### **Committee Observation**

The Committee observed that although there was no financial loss, procurement of similar goods and services should not be split.

#### **Committee Recommendation**

The Committee recommends that the Audit Query be cleared.

### **2.2.2 Unbudgeted for Procurement of Graders and Drum Rollers**

During the period under review, the County Works and Transport Sector incurred expenditure totalling Kshs.66,096,000 on procurement of two (2) graders and two (2) drum rollers from a supplier. It was observed that the expenditure had not been planned and budgeted for in the year 2013/2014 and no authority for budget revision from the County Assembly was made available for audit verification. Work plan and work tickets for operations were not made available for audit verification.

### **Management Response**

The Management admitted to the Audit Query and informed the Committee that during the financial year 2013/2014, there was a budget of Ksh.188,500,000 for the purchase of machineries for Public Works.

The County Government awarded contracts for purchase of the machineries with total sum of ksh 181,342,000 as indicated below:

2 Graders ksh 47,708,000

1 Rollers Ksh 9,194,000

1 Wheel loader Ksh 18,690,000

2 Excavator Ksh 39,338,000

1 Low loader ksh 12,412,000

3 Tipper ksh 54,000,000

During the financial year under review, the County Government did not have work plans since it was the first year of the Government and there were capacity gaps.

Approved budget extract for the period and work tickets for operations marked Annex 8, were provided to the Committee as evidence.

### **Auditor's Remarks**

The Auditor informed the Committee that although money was not lost, requisite approval procedures were not followed by the management.

### **Committee Observation**

The Committee observed that-

- Money for the expenditure was budget for in the Financial Year 2013/14;
- There was no loss of funds; and
- The County Assembly did not approval the expenditure.

## **Committee Recommendation**

The Committee recommends that the Audit Query be cleared.

### **2.2.3 Procurement of Furniture**

During the period under review, a Company was paid Ksh.4, 410,000 to supply furniture to the County Health Service Sector. The delivery notes attached on the payment vouchers were not signed and the Inspection and Acceptance Committee certificates were signed by one member out of three (3), members. Under the circumstances, it was not possible to confirm that the furniture were received by the County.

## **Management Response**

3.2.3 Delivery notes attached on payment Vouchers for Kshs 4,410,000.00 not signed

The Management admitted to the Audit Query and in mitigation informed the Committee that the inspection certificate was signed by one officer due to shortage of staff in procurement department. The few Inspection officers we had, were spread across departments. The officers also lacked capacity on matters procurement. This notwithstanding, the Committee heard that goods were received and evidence marked as Annex 9 were submitted to the Committee.

The Governor informed the Committee that he has since hired sufficient and qualified personal on procurement matters. He undertook to ensure such a lapse does not recur again.

## **Auditors Remarks**

The Committee informed the Committee that there was evidence of the goods delivered, however the inspection certificate was signed by one officer instead of three.

## **Committee Observation**

The Committee noted the mitigation by the Governor on the shortage of staff and the information that goods were delivered and verified by auditors.

The Committee further noted the challenges that affected the Counties at the dawn of devolution.

## **Committee Recommendation**

The Committee having noted the mitigation and the advisory of the auditors recommends that the Senate Clears the Audit Query.

The Committee further recommends that the County undertake capacity building for the newly recruited officers.

#### **2.2.4 Payments before Tender Award**

Physical Planning and Development Department paid three (3) contractors a total sum of Kshs.5,795,000 on 28 March 2014 for the latrine renovation and garbage collection. However, tender award was done on 4 April 2014. Consequently the competitiveness of the tender could not be confirmed.

#### **Management Response**

The management admitted to the audit Query on the payments before Tender Award for renovation and garbage collection totaling Kshs. 5,795,000 and informed the Committee that the tender award minutes attached to the voucher had erroneous dates since the actual sitting was on 24<sup>th</sup> March and not on 4<sup>th</sup> April. The tender committee meeting held on 14th April had actually noted the error and recommended correction although this was not captured in the main document. The payment voucher therefore captured the minutes before amendments.

The mix-up of documents was occasioned by lack of capacity in the procurement unit and the learning process of the few employees who were in procurement department.

The tender minutes recommending corrections marked as Annex 10 were submitted to the Audit office and the Committee as evidence.

The Governor informed the Committee that disciplinary action had been taken on the officer who took the minutes.

#### **Auditors Remarks**

The Auditor Confirmed that the payment voucher captured the minutes before amendment and adoption.

#### **Committee Observations**

- I. The observed that the mitigation by the Governor,
- II. The Committee however expressed disappointment on the level of incompetence on the officers who took the minutes and noted that it bordered on negligence.

#### **Committee Recommendation**

The Committee recommends that the Audit Query be cleared.

#### **2.2.5 Inflated prices for Fire Proof Cabinets**

The County Physical Planning and Development department paid a Supplier in the month of October 2013 Kshs.1,325,000 for supply of five (5) Fire Proof Cabinets each costing Kshs.265,000. However the Public Procurement Oversight Authority recommended prices for October 2013 was Kshs.157,357 per piece. The County Government would have saved Kshs.538,215 had they used the recommended price.

#### **Management Response**

The Management admitted to the Audit query on inflated prices for Fire Proof Cabinets totaling to Kshs. 1,325,000.00 and informed the Committee in mitigation that there are different types of fire proof cabinets with different makes, quality, Country of origin, hence different features. PPOA has given a general indication which can only serve as a guideline and is applicable to Nairobi and Mombasa. For the case of Kisii County, the fire proof cabinets procured are of high quality with features similar to a safe including coding system. Further, market analysis of the same make of fire proof cabinet in Nairobi shows that it's selling at a price range of Kshs.198, 000 to Kshs. 199,000. After adding transport cost, supplier margin and VAT, the price of Kshs.265, 000 seemed reasonable. The Governor informed the Committee the County was informed by the need to protect documentations from fire risks having noted that the problem had affected other counties.

#### **Auditor's Remarks**

The Auditor informed the Committee that they had not factored in the extra features of the fire Proof Cabinets at the time of audit.

#### **Committee's Recommendations:**

The Committee recommends that the Audit Query be cleared.

#### **2.2.6 Payment for Installation and Supply of Electricity**

The Environment sector paid a contractor Kshs.525, 470 for the design, construction and installation of Electricity (Transformer) at Marani Market. However, management did not disclose how the company was identified and payment determined. Kenya Power and Lighting Company which would usually supply such services was not contracted. The payment voucher was also not authorized for processing. It's therefore not possible to ascertain the propriety of the expenditure.

#### **Management Response**

The management admitted to the Audit Query and in mitigation informed the Committee that Kenya Power and Lighting Company which usually supplies the services of design, construction and installation of electricity (transformer) was contacted and gave a list of prequalified firms that are allowed to do the contract. The



County Government was to finance the purchase of the transformer which was subsequently commissioned by KPLC and is fully functional. The Communications, commissioning report and list of prequalified contractors from Kenya Power and Lighting Company marked Annex 11 were provided as evidence.

#### **Auditor's Remarks**

The Auditor confirmed having verified a list of suppliers from KPLC and therefore the Audit query could be cleared.

#### **Committee Recommendations**

The Committee recommends that the Audit Query be cleared.

#### **2.2.7 Updating Fixed Assets Register and Valuation of Assets**

The County Government awarded contracts to two consultants to undertake valuation of County assets at a contract sum Kshs.8,500,000 and paid Kshs.1,500,000 for preparation and updating assets register however, the following omissions were noted:

- i. The assets register was not fully updated as it lacked entries such as the date of registration, location, suppliers' names, condition and cost price.

#### **Management Response-**

The Management admitted to the Audit Query and informed the Committee that the entries which were omitted in the asset register have since been incorporated. However, for assets which were inherited from the defunct local authorities, we still lack some information such as date of purchase, cost and the supplier name. Attempts to seek information from defunct local authorities were futile because they did not maintain proper records making it difficult for us to indicate the information in the Asset register. Copies of valuation report and Asset register marked as File No. 5, was provided for verification by the Auditor and the Committee.

#### **Auditor's Remarks:**

The Auditor confirmed to the County had submitted an asset valuation report and asset register for verification. However although some entries which were not provided for earlier have since been reflected, the document still lacks in details.

#### **Committee's Observations:**

The Committee observed that-

- The County Executive had updated its fixed assets register but the updated register did not cover the fixed assets from the defunct local authorities;

- The matter of updating the register of fixed assets and liabilities was being undertaken by the Inter-Governmental Relations Technical Committee (IGRTC).

#### **Committee's Recommendations:**

The Committee recommends that the Audit Query be put on hold until the Inter-Governmental Relations Technical Committee (IGRTC) concludes updating the register of assets and liabilities of County Governments.

- ii. Title deeds for Land parcels with total value of Kshs.2, 075,300,000 listed in the assets register were not availed for audit verification.

#### **Management Response**

The management admitted to the Audit Query and informed the Committee that the Parcels of land were held in trust by the defunct local authorities hence there were no title deeds issued.

#### **Auditor's remarks**

The matter has not been resolved.

#### **Committee Observation**

- a) The Committee expressed concern that a poorly managed transition period may have put counties at the risk of losing its valuable assets.
- b) The Committee further noted the land was held in trust by the defunct local authorities hence no title deeds were issued and fraudsters may take advantage of poor transition mechanisms.
- c) That the process of updating the assets register was an ongoing process by the IGRTC

#### **Committee Recommendations**

The Committee recommends that-

- The County Executive should update its asset register by reflecting all the necessary details of the assets and also secure title deeds for all parcels of land owned by the County Government.
- The Audit Query be put on hold until the Inter-Governmental Relations Technical Committee (IGRTC) concludes updating the register of assets and liabilities of County Governments.
- iii. The fixed assets register reflects ninety four (94) undeveloped parcels of land owned by the County which may be prone to encroachment.

Under the circumstance, the fixed assets register does not reflect the accurate position of the County assets.

### **Management Response**

The management admitted to the Audit Query and informed the Committee that the County Government is waiting for the handing over to be concluded by Transitional Authority so that the parcels can be surveyed and registered in the name of the County Government. So far the said handing over is yet to be concluded.

### **Auditors Response**

The Auditor informed the Committee that the matter had been undertaken but not conclusively.

### **Committee Observation**

The observed the process of updating the assets register was an ongoing process by the IGRTC.

### **Committee Recommendations**

- The County Executive should update its asset register by reflecting all the necessary details of the assets and also secure title deeds for all parcels of land owned by the County Government.
- The Audit Query be put on hold until the Inter-Governmental Relations Technical Committee (IGRTC) concludes updating the register of assets and liabilities of County Governments.

## **2.3 EXPENDITURE REVIEW**

### **2.3.1 Procurements of Insurance Services**

During the period under review, the Finance sector paid Kshs.49, 467,739 to an Insurance Broker as premium against insurance taken with two (2) Insurance Companies. The Broker was awarded contract through Request for Quotations (RFQ) instead of open tendering as stipulated by Public Procurement and Disposal Act, 2005 and Regulations 2006. Further, the premiums were paid directly to the broker instead of the underwriters contrary to regulations by the Insurance Regulatory Authority of Kenya.

### **Management Response**

The Management admitted to the Audit Query and informed the Committee that -

The insurance services were procured at different times to cover different risks at different points in time as analyzed hereunder.

No.	Dates	Item description
1.	30/01/2014	Provision of insurance for cash in transit, fidelity guarantee, burglary and public liability
2.	10/01/2014	Insurance group personal accident (GPA) - 750 Employees
3.	06/01/2014	Medical cover for senior staff
4.	24/01/2014	Fire and perils insurance of major buildings and furniture
5.	02/12/2013	Comprehensive insurance cover for vehicles
6.	24/01/2014	Comprehensive insurance cover for ten new vehicles
7.	30/01/2014	Insurance cover for workmen injury benefit and employer liability
8.	02/09/2014	KCG/QT/131/2013-14 Insurance cover for vehicles

The above insurance services were awarded through Request for Quotations from prequalified suppliers since open tender would have taken longer and the county assets and employees were at risk as the county was at the formative stage. Further, there were capacity gaps in procurement hence delays in effecting procurement procedures. The County cabinet meeting held on 3<sup>rd</sup> October 2013 also discussed the matter and the urgency thereof. The premiums were directly paid to the broker and is in line with the provisions of the Insurance Act, 2013 chapter 487 of the laws of Kenya which allows registered persons to represent an insurer. Further, the Act allows the registered persons to collect premiums and deposit with, or dispatch to the insurer before commencement of insurance cover Article 156 (8) is marked as *Annex 12*.

#### **Auditor's remarks**

The Committee was informed that although there was no loss of funds procurement of goods and services should not be rushed and the law should be adhered to.

#### **Committee Observations**

The Committee observed that-

- Procurement procedures were flouted by the County Government in its attempt to rush to secure the County from risks.

- The County Executive may have followed the provisions of the Insurance Act, 2013 Chapter 487 of the laws of Kenya but comprehensive law covering procurement of goods and services should be complied with.

### **Committee Recommendations**

The Committee recommends that the Audit Query be cleared.

#### **2.3.2 Leasing of Ambulance vehicles**

The County Government entered into a one year operating lease agreement with a Non - Governmental Organization (NGO) on 22 October 2013 for the lease of nine (9) ambulances at a monthly cost of Kshs.600, 000 per ambulance (Kshs.64, 800,000 per year). However, during the tendering process, the per diem for the (NGO) staff and fuel were never disclosed but only included in the contract document. Total Payments made for the six months totaled Kshs.38, 356,506 including per diem for the (NGO) staff and fuel expenses. Records on how the county monitors the movement of these ambulances were not availed.

The County Government should consider it prudent to acquire new ambulances for operation in order to receive value for money. Evaluation on whether to buy or lease was not carried out.

### **Management Response**

The management admitted to the Audit Query and informed the Committee that the county government opted to lease nine ambulances as a contingency measure of offering ambulatory services as we waited for purchase of our own ambulances. The idea was to use the services of the Kenya Red Cross Society who are experienced in handling those service as we prepared to recruit our own paramedics, buy equipment and put in place our own ambulance system.

In mitigation the Governor informed the Committee that the county has subsequently purchased its own ambulances and we are no longer leasing the services.

Records on how the county monitored the movement of the ambulances and work marked as evidence Annex 13(a) were availed to the Auditor and Committee for verification.

A cost benefit analysis was done and submitted to the Auditor and the Committee marked as Annex 13(b).

### **Auditor's remarks**

The Auditor confirmed to the Committee that subsequently the County purchased its own ambulances however diligence and compliance in the procurement of goods and services should be complied with.

#### **Committee Observation**

The Committee observed that County Government lost money by entering into contracts that had a value of acquiring new ambulances.

#### **Committee Recommendation**

The Committee recommends that the Audit Query be cleared.

#### **2.3.3 Payment to the Council of Governors**

The County Government in the month of October 2013 paid Council of Governors Kshs.300, 000 to support the work of the Council. The Council of Governors as created under the Inter-Governmental Relations Act, 2012 Section 19 should be financed through the annual estimates of the Revenue and Expenditure of the National Government as per Section 37 of the Act. The propriety of the expenditure incurred therefore could not be confirmed.

#### **Management Response**

The management admitted to the Audit Query and informed the Committee that the payment to the Council of Governors was paid following the resolution of the COG meeting held on 13th September, 2013 at Safari park hotel Nairobi, followed by a letter dated 16th September, 2013 requesting for remittances from the county governments. Copies of minutes and letter from the COG sanctioning the remittance marked Annex 14 were submitted as evidence.

#### **Auditor's remarks**

The Auditor informed the Committee that the payment to the Council of Governors was an illegal payment.

#### **Committee Observations**

The Committee observed that-

- The Council of Governors is an institution established by an Act of Parliament with clear functions and IGRTC as its secretariat;
- That IGRTC is funded under the Ministry of Devolution;
- Although the Council of Governors had established its own secretariat and was not using IGRTC, the secretariat was not established in law.

## **Committee Recommendations**

The Committee recommends that-

- The County Government should liaise with the National Government for a refund of the amount paid erroneously; and
- The National Government establish a budget line to fund the operations of the Council of Governors.

### **2.3.4 Honoraria, Overtime and Lunch Allowances**

During the year under review, the Finance Sector paid honoraria allowances totaling Kshs.1, 035, 500 to Tender Committee Members and procurement department officers involved in processing tender documents. Further, Kshs.2, 236, 500 was paid as overtime and lunch allowances to officers as compensation for working beyond normal hours. However, management did not disclose the authority/circular for the payment of the allowances taking into consideration that the officers should have carried out the duties during their normal working hours.

#### **Management Response**

On the Honoraria Allowances the Management admitted to Audit Query and informed the Committee that the payment of Kshs.1, 035,500 to tender committee members is in line with the legal notice no. 174 on Public Procurement and Disposal Act 2005 section 12 (5) which stipulate that "members of the tender committee may be paid such honoraria as the procuring entity may determine.

(Authority letter, extract of the Act and tender minutes marked as Annex 15 submitted to the Auditors and the Committee as evidence).

On the Lunch Allowances the management admitted to the Audit Query and informed the Committee that the payment of lunch allowances was necessitated by the need to work beyond normal working hours due to exigencies of work considering that the county government was in its formative stages and there was staff shortage and technical gaps requiring us to work overtime. As a motivation the County Government was prompted to pay lunch allowances and overtime allowances since they could work away from duty station and over weekends.

#### **Auditor's Response**

The County has not established an internal policy on payment of honoraria and overtime allowance to the tender committee and that officers are eligible to pay only outside work stations.

#### **Committee Observations**

The Committee observed that-

- Although the management acted within the law in the payment of Honoraria and overtime allowance, the county had not developed a policy to determine the rate of these payments; and
- The County Executive acted outside the law by making payment of meal allowances within the work station.

### **Committee Recommendation**

The Committee recommends that;

- i. The County Executive should determine the rate of honoraria payable to the tender committee members;
- ii. The County Executive should develop a policy to guide the eligibility of payment overtime allowance;
- iii. Meal allowance should be paid only when officers work outside their working stations.
- iv. Full recovery to be made upon failure to support payment of the above allowances and honoraria.

### **2.3.5 Payment of Transport Allowances**

The County Government paid transport allowances of Kshs.20,000 per month to each ten (10) County Executive Committee (CEC) members in the month of January and February 2014, despite the CECs having official transport allocated to them. Transport allowance totaling Kshs.400,000 was spent contrary to the Salaries and Remuneration Commission circular ref. SRC/TS/CGOVT/3/61 dated 20 August 2013.

### **Management Response**

The management admitted to the Audit Query and informed the Committee that the County Government erroneously paid ministers for two months while they enjoyed the benefit of county vehicles. The anomaly has been noted and will be recovered from their salaries. The recovery authority together with stoppage letter marked as Annex 16 was submitted as evidence.

### **Auditor's remarks**

The recovery mechanism has not been instituted.

### **Committee Observation**



The Committee observed that the actual deductions to recover the payment of undue transport allowance had not commenced.

### **Committee Recommendations**

The Committee recommends that-

- i. Full recovery should be made on the Kshs.400, 000 being transport allowances paid to CEC Members for the period they were allocated official transport; and
- ii. The Audit Query stands until such a time that the money is recovered in full.

## **2.4 REVENUE RECORDS**

### **2.4.1 Revenue Collection and Banking**

Analysis of the revenue collection and banking for the period under review revealed the following:-

- i. Revenue collection analysis for nine (9) sub-counties availed for audit review revealed unbanked revenue totalling Kshs.3,299,610 contrary to the Public Finance Management Act, 2012 and the existing Financial Regulations;

### **Management Response**

The management responded by informing the Committee that under banking figure of Kshs. 3,299,610 was as a result of forgery of banking slips by a cashier at Kisii town. We noted the anomaly and the matter was reported to the police and a manhunt ensued for the cashier. Unfortunately, the cashier committed suicide when he realized the police were looking for him thereby making it impossible to recover the cash lost.

### **Auditor's remarks**

The Auditor informed the Committee that the county had not showed evidence of recovery of the money.

### **Committee Observation**

The Committee observed that with the death of the fraudster the recovery for the money had become a bad debt.

### **Committee Recommendations**

The Committee recommends that-

- a) The County Executive should enhance the revenue collection system and also implement the C-IFMIS for efficient and effective revenue collection;

- b) All the revenue collected should be banked in the County Revenue Fund Account;
  - c) The County Executive should procure cash handling insurance to protect the county from the risk of such loss;
  - d) The Chief Officer responsible for Finance be reprimanded for not instituting mechanisms to protect collection of revenue; and
  - e) The Audit Query be cleared.
- ii. The county entered into a Private Partnership with a bank upon which the bank will collect parking fee, motorbike licensing, bus and matatu parking fees. The terms and condition of agreement and the revenue collected were not made available for audit verification;

### **Management Response**

The management responded by informing the Committee that the County Government entered into public private agreement with diamond trust bank for revenue collection on a pilot basis. The contract agreement marked Annex 17(a) were submitted as evidence.

### **Auditor's remarks**

The Auditor informed the Committee that the documents had been availed for audit verification but expressed disappointment for failure that the documents were not availed at the time of audit.

### **Committee Recommendation**

The Committee recommends that the Audit Query be cleared.

- iii. Kisii Level 5 Hospital collected revenue totaling Kshs.1, 835,591 between July 2013 and February 2014. The revenue was not banked into the County Revenue Account, but spent directly contrary to the requirements of Public Finance Management Act, 2012;

### **Management Response**

The Management admitted to the Audit Query and provided mitigation response that the county Government had intended to protect the Hospital cash crunch with had hit the county due to slow exchanger releases. The Committee further heard that a bill to legalize expenditure at source is at its third reading at the Kisii County Assembly as per PFMA 2012 article 109 (2b).

**Auditor's remarks**

The County had not complied with the law by illegally spending revenue at source.

**Committee Observation**

The Committee observed that the County Executive had spent the money at source without a legal framework.

**Committee Recommendation**

The Committee recommends that the Audit Query be cleared.

- iv. The balancing of all revenue cash books were done in pencil and not in permanent ink.

**Management Response**

The Management regretted the anomaly and informed the Committee that the situation had since been rectified and committee to ensure it will not recur.

**Auditor's remarks**

The Auditor informed the Committee that the actions of balancing of revenue cash books in pencil and not in permanent ink was against the PFM Act.

**Committee Observations**

The Committee observed that-

- The actions of the officer who recorded revenue cash books with pencil bordered on negligence.
- The County Executive acted in contravention of provisions of the PFM regulation by making financial records using a pencil which has no indelible ink.

**Committee Recommendations**

The Committee recommends that the Audit Query be cleared.

- v. Handing over report of the revenue balance that was inherited and the unused receipt books handed over as at 4 March 2013 when the County came to existence were not availed for audit verification. Consequently, the accountability of the revenue collected could not be confirmed.

**Management Response**

The Management admitted to the Audit Query and informed the Committee that when the county government came into being, the Interim County Treasury took over the

bank accounts of the defunct local authorities and closed them. All the revenues in the bank accounts were transferred to the new Kisii County Revenue collection account. There was no handing over that took place since the officers collecting revenue for defunct local authorities continued to collect revenue for the Government.

Closure instructions for those banks together with closure advice from respective banks marked as Annex 17(b) were submitted as evidence.

#### **Auditor General's remarks**

The Auditor General informed the Committee that all the relevant documents had been submitted though belatedly and verified to the satisfaction of the Auditor General.

#### **Committee's Recommendation**

The Committee recommends that the Audit Query be cleared.

- vi. The County revenue collection software known as C-IFMIS or LAIFOM is yet to be put into use and no explanation was provided. Under the circumstances, the accuracy of revenue collection could not be confirmed.

#### **Management Response**

The management admitted to the Audit Query and informed the Committee that the LAIFOM system was a system used by the defunct local authorities. When the county government took over, it was important for the system to be re-designed to accommodate the merged local authorities and the provisions of the Finance Act 2013/2014. When the technical issues were addressed the system was operationalized in all sub counties and is now in use.

#### **Auditor's remarks**

The Auditor confirmed that the systems are now operational.

#### **Committee Recommendation**

The Committee that the Audit Query be cleared.

## **2.5 HUMAN RESOURCE MANAGEMENT AND PAYROLL**

### **2.5.1 Payment of Salary without Deducting P.A.Y.E**

The Hospital paid salary to eight (8) employees who were hired on contract without recovering Pay as You Earn(P.A.Y.E) totaling to Kshs.144,082 contrary to Income Tax Act Cap 470. The County Government may incur penalties and interest for non-recovery and remittance of income taxes.

#### **Management Response**

The management admitted to the Audit Query and informed the Committee that the employees in question were hired on casual basis and there was an omission in deducting P.A.Y.E on their casual wages. As for permanent employees, the deductions and remittances were done as appropriate. The county government is now in compliance and all taxes are paid accordingly evidence of deductions were submitted as evidence.

#### **Auditor's Remarks**

The Audit informed the Committee that the county has since complied with the deductions and remittances requirements of the law.

#### **Recommendation**

The Committee recommends that-

- The Audit Query be cleared;
- The County Executive should recover P.A.Y.E and remit to KRA as per Income Tax Act Cap 470.

#### **2.5.2 Payment of Tuition Fees for Medical Staff**

During the year, Kisii Level 5 Hospital paid Kshs.595, 600 fees for seven (7) officers who were pursuing various courses at Kenya Medical Training College (KMTC) and Kenyatta National Hospital through cost sharing funds. However, the authority for the payment was not availed for audit verification.

#### **Management Response**

The management admitted to the Audit Query and informed the Committee that the officers had approval from the County Director of Health who was then the Acting Chief Officer of Health. Attached minutes for the training committee approval and letters of admission marked Annex 18 was submitted to the Committee as evidence.

#### **Auditor's remarks**

The Auditor confirmed receipt of approval documents and verification

#### **Committee Recommendations**

The Committee recommends that the Audit Query be cleared.

### **2.6 COUNTY INFORMATION TECHNOLOGY ENVIRONMENT**

#### **2.6.1 IFMIS, G-PAY and LAIFOMS**

A review of the IFMIS, G-PAY and IPPD systems revealed that the systems are not interfaced and the integrity and accuracy of information uploaded from one system to another could not be ascertained.

All the relevant data had not been captured in the system and information update were not accurate. There are cases of an officer operating both IFMIS and G-Pay at the same time resulting to lack of internal checks.

A review of the accounts set up and access rights granted to staff within IFMIS revealed the following weakness:

- i. There are no approved standard authorization cards used in granting access to the system.
- ii. Users have been granted conflicting roles where certain users can perform a transaction from initiation, processing, reversal and reconciliation.
- iii. The logical access controls are weak given that the users are not prompted to change the password upon the first log on and also all passwords are being shared by the system operators through access to individual user set-up account.
- iv. IFMIS accounting system had not maintained system logs for all the transactions processed within the system since as the operators are sharing passwords it defeat the logic of having system logs.

#### **Management Response**

The management admitted to the Audit Query and informed the Committee that the systems did not have real time integration at the time and had to rely on some human intervention to upload documents. The three systems could not therefore have the same information at all times.

Due to lack of enough human capacity, the county was forced to have the same officer operate both GPAY and IFMIS under different access rights and roles. Currently there is enough capacity and the access rights are authorized as per guidelines from National Treasury.

- i. True; the use of cards has not been implemented by national treasury, however we use passwords and virtual private networks to maintain system security.
- ii. IFMIS user access rights are created by IFMIS department and the system is able to manage conflicting roles.
- iii. There are procedures on acquisition of new passwords as outlined by National Treasury. Passwords for different roles in IFMIS were given and each role had a single user initially. The passwords were regrettably shared temporarily when the County received new employees. During this time the finance department had a lot of work and the creation of new employees in the system by the National Treasury was taking a bit of time.

These individual login credentials are now active and each user has rights to change their passwords.

GPAY had prompts for password change every fortnight and its administration is done by county systems administrator.

#### **Auditor's remarks**

The Auditor informed the Committee that subsequent improvements have been made in the management of IFMIS accounting system.

#### **Committee Recommendations**

The Committee recommends that-

- The County Executive should ensure that the system is configured to maintain all system logs automatically in order to ensure that audit trails are maintained;
- The system logs should be regularly reviewed by the system administrator and a report issued to the management; and
- The Audit Query be cleared.

#### **2.6.2 Service Level Agreements with System Vendors**

The County does not have Service Level Agreement (SLAs) with vendor of IFMIS Accounting package, IPPD payroll package and C-LAIFOM billing package to explain the expectation and the responsibilities of the systems' vendors for maintenance and upgrading of the systems.

#### **Management Response**

The Committee admitted to the Audit Query and informed the Committee that most of the Systems used currently were inherited by the County governments from the National Government. These include IFMIS, IPPD, LAIFOMS and GPAY. The vendors are only known to the National Government who should be having SLAs with them. GPAY system vendors have their own agreements with the Central Bank of Kenya and not the County Government. This is also the case with IPPD which is developed and supported by government staff.

#### **Auditor's remarks**

The Auditor confirmed the response by Management to be correct.

#### **Committee Observation**

The Committee observed that-

- There was no way the county Government could have service level agreements given that that IFMIS, IPPD and GPAY Systems are used across the two levels of Government; and
- The National Government is the Custodian of the Systems.

### **Committee Recommendation**

The Committee recommends that the Audit Query be cleared.

### **2.6.3 Server Room**

Inspection of the server room revealed the following weaknesses:

- i. The physical access controls are not adequate as the door to the server room is not under lock and key. It is also accessible to unauthorized persons.
- ii. The space for the Server is inadequate as it also houses the System Administrator, and G-Pay server is housed under Deputy Director of finance office. IPPD server is housed under payroll supervisor office.
- iii. The room is not air conditioned so as to regulate the temperatures given that servers run for long hours thus they may heat up.
- iv. The servers are placed on the table thus exposed to dust and water.
- v. There are no smoke detectors and fire extinguishers within the server room
- vi. The County Government has dedicated one of their computers to be the server. The same computer is also used for other transactions.
- vii. The user set up is such that two users have one password.

### **Management Response**

There was complete lack of ICT infrastructure at the inception of the county government. At the time of the audit the county was undertaking renovations of a shared data center and recovery site.

The data center is now complete and able to provide the best environment for application servers, network devices and other equipment. It has the following subsystems and environmental conditions highlighted during the audit:

- Cooling systems
- Adequate racks space for expansion
- Physical security with biometric access control



- Raised floor and ample lighting
- IP surveillance system
- Power backup system
- Fire suppression and smoke detection system
- Monitoring system

All servers are currently housed in the main data center with recovery site currently under renovation at the county treasury. All connections from client computers are made over the network to respective servers.

Physical photos of sections of the server room were provided to the Committee as *Annex 5*.

#### **Auditor's Remarks**

The Auditor informed the Committee that the renovations have been verified and the mitigations are correct.

#### **Committee Recommendation**

The Committee recommends that the Audit Query be cleared.

### **2.7 PRIOR YEAR OUTSTANDING ISSUES**

#### **2.7.1 Handing Over of Assets and Liabilities of Defunct Local Authorities**

The handing over of the assets and liabilities of the defunct local authorities had not taken place at the time of audit a year after the County Government came into existence.

#### **Management Response**

The management admitted to the Audit Query and informed the Committee that that handing over of assets and liabilities had not been concluded. This was because the Transitional Authority was to carry a survey to verify the existence of the assets and liabilities, including valuation of the assets.

#### **Auditor's Remarks:**

The Auditor informed the Committee that although this issue was a dominant challenge across all counties, each county government should conclude its listing and verification of the assets and liabilities through the inter-agency committee spearheaded by the Transition Authority.

### **Committee Observation**

The Committee observed that although the process of assets and liabilities registers verification was on-going at a national level, the County government should hasten its internal mechanisms for the listing and verification of its assets and liabilities.

### **Committee Recommendation**

The Committee recommends that-

- The County Executive should keep an up-to-date record of the assets acquired by the County Government since inception to avoid future challenges.
- The Audit Query stands until such a time that this process of updating the assets and liabilities register by the IGRTC is completed.

APPENDICES

Minutes of the Committee



**MINUTES OF THE 4<sup>TH</sup> SITTING OF THE SESSIONAL COMMITTEE ON COUNTY PUBLIC ACCOUNTS&INVESTMENTS HELD ON THURSDAY 13<sup>TH</sup>MARCH 2018AT MAIN PARLIAMENT BUILDING, COMMITTEE ROOM 5 FROM 9:00 A.M.**

**PRESENT**

1. Sen. Moses OtienoKajwang', M.P. -Chairperson
2. Sen. (Prof) Sam K. Onger, EBS, EGH, M.P.
3. Sen. Paul KimaniWamatangi, M.P.
4. Sen. Charles ReubensonKibiru, M.P.
5. Sen. LedamaOlekina, M.P.
6. Sen. Mohammed Faki, M.P.

**ABSENT WITH APOLOGY**

7. Sen. Franklin Mithika Linturi, M.P. -Vice Chairperson
8. Sen. Fatuma Dullo Adan, CBS, M.P.
9. Sen. Millicent Omanga, M.P.

**SENATE SECRETARIAT**

1. Ms. Emmy Chepkwony -Principal Clerk Assistant
2. Mr. Yussuf Shimoy -Clerk Assistant
3. Mr. Fredrick Muthengi - Principal Physical Analyst- PBO
4. Mr. Eric Osoi -Research Officer
5. Ms. Lucy Radoli -Legal Counsel
6. Mr. Reuben Kimosop -Senior Serjeant-At-Arms
7. Mr. Godana Mamo -Serjeant-At-Arms
8. Mr. Robert Rop -Audio Recording Officer

**MIN. NO. SEN/CPAIC/18/2018: PRELIMINARIES**

The chairperson called the meeting to order at 9:20 a.m. and there followed a word of prayer by the Sen. Charles Kibiru.

**MIN. NO. SEN/CPAIC/19/2018: ADOPTION OF AGENDA**

The agenda of the meeting was adopted after it was proposed and seconded by Sen. Charles Kibiru, M.P. and Sen. Mohammed Faki, M.P. respectively.

**MIN. NO. SEN/CPAIC/20/2018: CONFIRMATION OF MINUTES OF THE PREVIOUS MEETINGS**

Minutes of the third sitting held on Thursday, 8<sup>th</sup> March, 2018 were confirmed as a true record of the deliberations of the Committee after they were proposed and seconded by Sen., M.P. Mohammed Faki and Sen. Paul KimaniWamatangi, M.P.respectively.

**MIN. NO. SEN/CPAIC/21/2018: MATTERS ARISING FROM THE PREVIOUS MINUTES**

Under MIN.NO.SEN/CPAIC/17/2018

The Chairperson informed the meeting that the request by the Governor for Taita Taveta County regarding the intervention of the Senate in dealing with pending bills had been forwarded to the Senate Standing Committee on Devolution and Intergovernmental Relations. Members noted that the matter ought to have been forwarded to the Committee on Public Accounts and Investment and the Chairperson was tasked to follow up the subject with the Speaker and the Liaison Committee.

**MIN. NO. SEN/CPAIC/22/2018: CONSIDERATION OF THE PROPOSED SCHEDULE OF INVITATION OF COUNTY EXECUTIVE FOR THE YEAR 2014/15 AND 2015/16**

The secretariat tabled a proposed schedule of invitations indicating notice of sittings for the months of April, May, June and July, 2018 as shown in the table below. In the proposal, each County Executive was to respond to audit queries arising from 2014/15 and 2015/16.

DATE	9.00 AM
<b>Consideration of the Report of the Auditor- General on the Financial Statements for the Financial Year 2014/2015 and 2015/2016</b>	
Tuesday, 10 <sup>th</sup> April, 2018	Makueni County Executive
Wednesday, 11 <sup>th</sup> April, 2018	Murang'a County Executive
Thursday, 12 <sup>th</sup> April, 2018	Mandera County Executive
Tuesday, 17 <sup>th</sup> April, 2018	Samburu County Executive
Wednesday, 18 <sup>th</sup> April, 2018	Mombasa County Executive
Thursday, 19 <sup>th</sup> April, 2018	Kwale County Executive
Thursday, 3 <sup>rd</sup> May, 2018	Embu County Executive
Tuesday, 8 <sup>th</sup> May, 2018	Machakos County Executive
Wednesday, 9 <sup>th</sup> May, 2018	Kakamega County Executive
Thursday, 10 <sup>th</sup> May, 2018	Uasin Gishu County Executive
Tuesday, 15 <sup>th</sup> May, 2018	TransNzoia County Executive
<del>Wednesday, 16<sup>th</sup> May, 2018</del>	<del>Homa Bay County Executive</del>
Thursday, 17 <sup>th</sup> May, 2018	Siaya County Executive
Tuesday, 23 <sup>rd</sup> May, 2018	Nyeri County Executive

Wednesday, 24 <sup>th</sup> May, 2018	Garissa County Executive
Thursday, 25 <sup>th</sup> May, 2018	Isiolo County Executive
Tuesday, 29 <sup>th</sup> May, 2018	Meru County Executive
Wednesday, 30 <sup>th</sup> May, 2018	Taita/ Taveta County Executive
Thursday, 31 <sup>st</sup> May, 2018	Marsabit County Executive
Tuesday, 5 <sup>th</sup> June, 2018	Nyandarua County Executive
Wednesday, 6 <sup>th</sup> June, 2018	Bomet County Executive
Thursday, 7 <sup>th</sup> June, 2018	Wajir County Executive
Tuesday, 12 <sup>th</sup> June, 2018	Laikipia County Executive
Wednesday, 13 <sup>th</sup> June, 2018	Tharaka-Nithi County Executive
Thursday, 14 <sup>th</sup> June, 2018	Tana River County Executive
Tuesday, 19 <sup>th</sup> June, 2018	Kirinyaga County Executive
Wednesday, 20 <sup>th</sup> June, 2018	Nairobi County Executive
Thursday, 21 <sup>st</sup> June, 2018	West Pokot County Executive
Tuesday, 26 <sup>th</sup> June, 2018	Kitui County Executive
Wednesday, 27 <sup>th</sup> June, 2018	Kisumu County Executive
Thursday, 28 <sup>th</sup> June, 2018	Bungoma County Executive
Tuesday, 3 <sup>rd</sup> July, 2018	Baringo County Executive
Wednesday, 4 <sup>th</sup> July, 2018	Nyamira County Executive

The Committee deliberated on the proposal and resolved to consider the audit queries of a County Executive and its County Assembly at the same time for one financial year 2014/15. The Committee directed the secretariat to re-organize the schedule.

Further consultations was to be done by the chairperson on the availability of members during the recess to enable a final determination on the schedule of invitations.

**MIN. NO. SEN/CPAIC/23/2018: PRESENTATION BY PARLIAMENTARY BUDGET OFFICE ON AUDIT REPORTS WITH HIGH FUDICIARY RISK**

The Parliamentary Budget Office presented an analysis on the Auditor General reports on County Governments (County Assemblies and County Executives) for FY 2015/2016 and the following issues came out-

1. Irregulars in Car and House Mortgage Loans Schemes where there were cases of variation in amount of loan disbursed against the value of the house or car contrary to the regulations governing.

2. Irregularities in procurement: procuring outside the prequalified entities contrary to Article 227 of the Constitution and value for money.
3. Non-compliance with the public sector Accounting Standards Board requirement that a report on follow up of previous year's audit recommendation and summary of fixed assets register should be included as part of the annexures to the financial assets.
4. Cases where Members of the County Assembly are paid for sitting allowances and yet said to be in foreign trips at the same time.
5. Failure by various counties to establish Internal Audit Committee.
6. Unaccounted expenses and undelivered goods.
7. Taxable allowances paid without subjecting to applicable tax as per section 5(2)(a) of the Income Tax Act cap 470.
8. Incomplete and or no fixed assets register at both County Assemblies and County Executives leading to loss of property and other movable assets and office equipment.
9. Outstanding imprest and advances that lack supporting documents.
10. Under collection of local revenue.
11. Other recurring audit queries included: irregular payments, under expenditure, pending bills, unsupported expenditure, unbudgeted expenditure and uncompleted and stalled projects.

The Committee directed the physical analyst from PBO:

- 1) To make a comprehensive analysis on audit queries from 2012/13 to 2015 /16 in cooperating the issues in the reports of the Controller of Budget during the same period giving particular attention to development projects.
- 2) Compile list of Counties with high fiduciary risk after the analysis.
- 3) Give clarity on pending bills in the counties.
- 4) List of counties that fail to establish audit committees.

**MIN. NO. SEN/CPAIC/24/2018: CONSIDERATION OF WORK OF SCHEDULE FOR THE SUB-COMMITTEES ON REPORT WRITING.**

The Committee resolved to undertake a report writing retreat in Kwale County from 22<sup>nd</sup> to 26<sup>th</sup> March, 2018 to enable the sub-committees to start their work of clearing the backlog.

**MIN. NO. SEN/CPAIC/25/2018: CONSIDERATION OF THE CONCLUDED BY THE PREVIOUS COMMITTEE**

The reports were presented before the Committee as part of the pending business from the previous Committee. The Committee resolved that the following six 6 reports be tabled considered and adopted by the previous Committee for the adoption by the House-

a) Narok County Executive



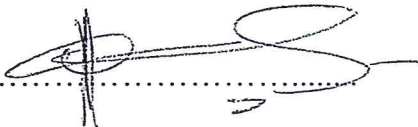
- b) Turkana County Executive
- c) Kilifi County Executive
- d) Kajiado County Executive
- e) Kisii County Executive, and
- f) Nakuru County Executive

The Committee further resolved to unbundle and re-table reports of the previously tabled ten (10) with the exception of three (3) counties (Migori, TransNzoia and Busia) which had petitions and are to be tabled in a revised version.

**MIN. NO. SEN/CPAIC/26/2018: ADJOURNMENT**

Having considered the business as set out in the agenda, the meeting was adjourned at 11:15 a.m. until Tuesday, 20<sup>th</sup> March, 2018.

Signed.....



Date.....

27/3/2018

**Sen. Kajwang' Moses Otieno, M.P**  
**Chairperson,**  
**County Public Accounts &**  
**Investment Committee**



**MINUTES OF THE 4<sup>TH</sup> SITTING OF THE SENATE SESSIONAL COMMITTEE ON COUNTY PUBLIC ACCOUNTS AND INVESTMENTS HELD IN THE COMMITTEE ROOM 10, 1<sup>ST</sup> FLOOR, MAIN PARLIAMENT BUILDINGS ON TUESDAY, 4<sup>TH</sup> APRIL, 2017 AT 11:30 AM.**

**PRESENT**

1. Sen. (Prof.) Anyang' Nyong'o, MP- **Chairman**
2. Sen. (Prof.) John Olenyangapuo, MP- **Vice Chairman**
3. Sen. Amos Sitswali Wako, MP
4. Sen. Paul Kimani Wamatangi, MP.
5. Sen. Henry Tiole Ndiema, MP.
6. Sen. Liza Chelule, MP
7. Sen. (Eng.) Muriuki Karue, MP
8. Sen. (Dr). Boni Khalwale, MP

**ABSENT WITH APOLOGY**

1. Sen. Paul Njoroge Ben. MP
2. Sen. Martha Wangari, MP.
3. Sen. Hassan Omar Hassan, MP
4. Sen. Stephen Kanyinke Ntutu, MP

**IN ATTENDANCE**

- |                         |                                 |
|-------------------------|---------------------------------|
| 1. Ms. Anita Thurairira | - Principal Clerk Assistant     |
| 2. Ms. Emmy Chepkwony   | - Ag. Principal Clerk Assistant |
| 3. Mr. Joseph Tiyan     | - Research Officer              |
| 4. Mr. Eugene Luteshi   | - Audio Report Officer          |

**(I) OFFICE OF THE AUDITOR GENERAL**

Mr. Akaka Ramoya - Manager /Liaison Officer,

**MIN.NO.023/2017**

**PRELIMINARIES**

The Chairperson called the meeting to order at 11.45 am and the meeting started with a word of prayer.

**MIN.NO.024/2017**

**ADOPTION OF THE AGENDA**

The agenda of the meeting was adopted having been proposed and seconded by Sen. (Prof.) John Olenyangapuo, MP and Sen. Paul Wamatangi, MP, respectively

**MIN.NO.025/2017**

**ADOPTION OF THE REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL OPERATIONS OF KISII COUNTY EXECUTIVE FOR THE PERIOD 1<sup>ST</sup> JULY, 2013 TO 30<sup>TH</sup> JUNE, 2014**

The Committee adopted its report with the following observations and recommendations-

## CHAPTER TWO

### 2.0 AUDIT QUERIES

#### 2.1 CURRENT ASSETS

##### 2.1.1 Imprest Management

- i. An imprest of Kshs.2,892,000 was issued to an officer to cater for accommodation and travel for the County officers' retreat held in Mombasa from 22 September to 4 October 2013. The surrender did not have relevant documentation namely; letters of invitation, details of transport used, contract agreement with the Hotel and attendance register.

##### Management Response

The Governor admitted to the Audit Query and informed the Committee that-

The County Government had organized a joint retreat for County Executive and County Assembly to orient themselves with the new County Government structures, Bonding and team building. An imprest was issued to the Accountant to cater for Per diems, travel costs and incidental expenses. Mombasa Beach Hotel is a Government Agency whose rates are standard and therefore there was no need of a negotiated agreement between the hotel and the County Government of Kisii. The invitation letter for the retreat, details of transport used and attendance register have been provided and are marked as Annex 1

##### Auditor's Remarks

The Auditor confirmed to the Committee that all documents (the invitation, attendance register and the means of transport to Mombasa) had been availed for audit verification and were satisfied.

##### Committee Observation

The Committee observed that there was no money lost.

##### Committee Recommendation

The Committee recommends that the Audit Query be cleared.

- ii. Another officer was paid Kshs.232,000 being reimbursement allowances to eight (8) officers travelling to Nairobi for uploading of budget in IFMIS system.

However on surrender, no relevant documents for the safari were attached the payment voucher. The rationale for sending eight (8) officers to upload the budget in IFMIS was also not explained.

##### Management response –

The Governor admitted to the Audit Query and informed the Committee that-

An imprest of Kshs. 232,000 was issued to an Accountant to cater for allowances of 8 officers who were to travel to Nairobi to learn how to upload the budget in IFMIS system. One of the officers who was already in IFMIS system received the imprest on behalf of the others, some of whom were not in the system since they had no Personal Numbers and were new employees. The rationale of sending eight officers was informed by the need to have alternative users of the system and the fact that it was the first budget under IFMIS, hence the need for training.

The email inviting the officers to Nairobi by the National Treasury together with surrender voucher is marked as Annex 2(a) was annexed as evidence.

**Auditor's Remarks:**

The auditor informed the Committee that the audit query had subsequently been resolved after the County Executive submitted the necessary documents for examination and verification.

**Committee's Observation:**

The Committee observed that although the County Executive Government had failed to provide the documents at the time of audit, the matter had been resolved.

**Committee Recommendation**

The Committee recommends that the Audit Query be cleared.

- iii. During the period under review, the County Government issued temporary imprest totaling Kshs.32, 741, 086 to staff for various journeys and purchase of goods and services but had not accounted for as at the time of audit February 2015.

**Management Response**

The Governor admitted to the Audit query and informed the Committee that an imprest of Kshs. 32,741,086 had not been surrendered by the time of the audit. The amount includes imprest given to the County Assembly since the County Executive was operating as a single entity at the time.

The imprest was subsequently surrendered. Surrender documents namely imprest warrants, vouchers and other supporting documents have been provided as a separate file and marked as File No. 1.

However, an outstanding amount of Kshs, 10,941.616 has not been surrendered and the Clerk to the County Assembly has been requested to recover the same from County Assembly payroll which they operate independently from the County Executive payroll.

An Imprest surrender schedule and a letter to recover Annex 2(b) together with an analysis of the issued imprest marked as Annex 2(c) were submitted as evidence.

**Auditor's Remarks:**

The Auditor informed the Committee that the Executive had taken action towards ensuring the imprest is surrendered. However imprest recovery from the members of the Assembly has not been fully done.

### **Committee Observation**

The Committee observed that-

- The County Executive had taken steps to ensure the deductions from the members of the County Assembly are done; and
- The burden of proof of deduction was on the Clerk of the County Assembly.

### **Committee Recommendation**

The Committee recommends that the Audit Query be cleared.

#### **2.1.2 Operations of Several Bank Accounts**

At the time of the audit the County government during the year opened sixty four (64) bank accounts both at head quarter and Sub-counties. A list of officers with authority to incur expenditure and operating of the bank accounts were not made available. Further, cash books, bank statements and bank reconciliation statements were not availed for audit verification. Management did not explain the necessity of operating so many bank accounts. Controls put in place over the operations of those banks accounts were also not explained. Consequently, control over bank operations could not be verified.

#### **Auditor's Remarks:**

The Governor admitted to the Audit Query and informed the Committee that the decision to open the 64 bank accounts was informed by the need to devolve accounting and procurement functions in line with devolution principles. The idea was to operate Sub County Treasuries similar to District Treasuries. Accounts were opened in each Sub County for Health, Education, Water and Environment, Agriculture, Finance and Administration sectors. This was before the National Treasury gave a directive on operating a centralized County Treasury through IFMIS and G-PAY systems. Upon the directive, the accounts were closed.

In further mitigation, the Governor informed the Committee that since it was the early days of devolution, coordination with the sub counties was a challenge.

The list of the said accounts and their status are marked as Annex 2(d) and the Bank reconciliation statements marked as File No. 2 were submitted to the Committee as evidence.

#### **Auditor's Remarks:**

The Auditor's informed the Committee that the twenty four accounts had been verified but expressed frustration with failure to submit documents at the time of audit noting that if the documents had been availed the audit query would not have occurred.

### **Committee Observation**

The Committee noted that the bank reconciliations and the cashbooks had been availed and verified.

### **Committee Recommendation**

The Committee recommends that the audit query be cleared.

#### **2.1.3 Cash Transfer to Ministry of Health Headquarter**

The County Executive transferred Kshs.316,131,142 to Ministry of Health headquarter being reimbursement of salary of devolved staff for July, August, September, and October 2013. No correspondence authorizing the transfer, reconciliation between the County and Ministry records and a miscellaneous receipt issued by the Ministry on receipt of the money were availed for audit verification.

#### **Management Response**

The Governor admitted to the audit query and informed the Committee that the National Government paid salaries and other related allowances to staff performing devolved functions on behalf of the County Government. The national treasury recovered the amount paid directly at source thereby netting off the amount entitled to the county for exchequer release.

The recovery advice together with other correspondences from the National Treasury marked as Annex 3 was provided Committee as evidence.

#### **Auditor's Remarks**

The auditor confirmed that the money was actually deducted at source by the National Government without reference to the County Government.

#### **Committee Observation**

The Committee observed that several counties had been affected by a unilateral decision by the National Government to deduct money from Counties without reference.

### **Committee Recommendation**

The Committee recommends that the Audit Query be cleared.

## **2.2 NON-CURRENT ASSETS**

### **2.2.1 Procurement of Goods, Services and Works**

In the period under review, the Finance sector procured goods, services and works totaling Kshs.89,236,629 and the following anomalies were noted;

- i. The County through use of quotation as opposed to open tender, awarded contracts totaling Kshs.41, 396, 879 to three (3) Contractors in respect of compilation of fixed assets appraisal & valuation, renovation and networking of County Offices.

#### **Management Response**

- (i) Use of quotations totaling Kshs. 41,396, 879.00



**a. Compilation of fixed assets appraisal and valuation of Kisii County Kshs. 8,500,000.00.**

During this period, the County Government was new and urgently needed to know its assets to assist in preparation of the first financial statement and submission of reports required by Transitional Authority on assets to be taken over from defunct local authorities.

Arising from above, the County Government opted for restricted tendering method and floated tenders to ten pre-qualified firms.

Tender Minutes of the tender committee, extract of pre-qualification list are marked as *Annex 4*. The valuation report and asset register have been included in our responses as a separate file and marked as **File No. 3**.

**b. Repairs and Renovations of part of County Executive Office Ground Floor Phase 1 contract sum of Kshs. 4,401,149.40**

The procurement method used was Request for Quotation (RFQ) as opposed to open tender since the amount was below the threshold of Kshs. 6,000,000 for open tender for works projects.

**c. Supply and Installation of Local Area Network Infrastructure at County Treasury Complex, Old Prefab Buildings and Fiber Interlink - Kshs. 13,503,644.00**

In the process of setting up county structures, there was an urgent need for installation of computer network infrastructure within the county headquarters to facilitate implementation of computer systems which were necessary for County Government Operations. There was completely no IT infrastructure in place.

The tender committee meeting held on 28th October, 2013 discussed and approved use of Restricted Tendering Method of procurement as per Public Procurement and Disposal Act 2005, Section 73 (2) (b). 10 firms were invited from the list of prequalified firms under network installation for the year 2013/2014.

The use of Restricted Tendering was occasioned by the urgent need to have the network in place to facilitate use of IFMIS, GPAY, IPPD, Revenue system and operationalize county services at the formative stages.

Use of an open tender would have taken a longer process yet the facilities were required to be in operation to support the county operations at the time.

The works were successfully completed on time and all the systems are fully operational.

The Tender minutes, Extract of the PPDA section 73(2) (b), Inspection certificate, Extract of pre-qualification list, Completion certificate and physical pictures are marked as *Annex 5*.

In mitigation the Committee heard that Kisii County was the first County to install ICT and it was verified by the Committee of the Senate on ICT.

**d. Supply and Installation of Computer Network Infrastructure at new prefabricated buildings, Blocks A, B & C - Kshs. 14,992,086.00.**

There was urgent need for installation of Network Infrastructure within the just constructed prefabricated buildings, blocks A, B & C, which were ready for occupation by county top management.

The tender committee meeting held on 28<sup>th</sup> October, 2013 discussed and approved use of Restricted Tendering Method of procurement, 10 firms were invited from the list of prequalified firms under network infrastructure for the financial year 2013/2014.

The use of Restricted Tendering was occasioned by the urgent need to operationalize the functions of the newly employed County Executive Members, Chief Officers, County Public Service Board Members, County Directors, Payroll officers who were to occupy the buildings at the time as per the provisions Public Procurement and Disposal Act 2005, Section 73 (2) (b).

Use of an open tender would have taken a longer process yet the facilities were required to be in operation to support the county operations at the time. The officers had just been recruited.

The works were completed on time successfully and all County departments are fully operational.

The Tender minutes, Extract of the PPDA section 73(2) (b), Inspection certificate, Extract of pre-qualification list, Completion certificate are marked as *Annex 6*.

#### **Auditor's Remarks**

The Auditor expressed satisfaction with the documents and the response provided.

#### **Committee Observations**

The Committee observed that there was nothing urgent about installation of ICT and although Kisii County was the first County to install ICT operations, the county should not have been in a rush to procure items without following the laid down requirements regardless of the importance.

#### **Committee Recommendation**

The Committee recommends that the Audit Query be cleared.

- ii. Contracts totalling Kshs.10,143,301 for repair & renovation, partitioning, installation of security lighting and Networking of County offices were awarded to six (6) suppliers who were not prequalified.

#### **Management Response**

The management admitted to the Audit Query and informed the Committee that the prequalification list availed during the audit was not the correct one. There was mix-up of procurement documents arising from shifting of procurement offices from Treasury building to a new procurement office. The auditors were given a hard copy of incomplete prequalification list which apparently was different from the up-to-date prequalification list uploaded in the county website. Further, the officers handling procurement then were from defunct local authorities and lacked capacity to handle procurement documents.

A prequalification list marked as *Annex 7* was submitted as evidence.

### Auditor's Remarks

The Auditor expressed satisfaction from the submitted and verified documents but expressed dissatisfaction on the mix up of documents at the time Audit.

### Committee Observation

The Committee observed that-

- The correct documents had been verified to the Auditor's satisfaction; and
- There was negligence and poor management of documents by officers in the procurement department.

### Committee Recommendations

The Committee recommends that the Audit Query be cleared.

- iii. The County awarded contracts totalling Kshs.37,696,449 to five (5) suppliers through split procurement methods for the supply of curtains & shears and Office Furniture.

### Management Response

Date of Quotation	Suppliers	Item description	Amount
21-11-2013	M/S Jebrive Investments	Supply of curtains and shears	875,980
10-1-2014	M/S Jebrive Investments	Supply of curtains and shears	1,508,940
06-12-2013	M/S Dap-Dei Chapter (K) Ltd	Supply of curtains and shears	1,999,984
06-03-2014	M/S Artoffice Furniture Ltd	Supply of furniture and equipment	541,725
18-03-2014	M/S Artoffice Furniture Ltd	Supply of furniture and equipment	484,000
13-02-2014	M/S Artoffice Furniture Ltd	Supply of furniture and equipment	2,724,580
02-02-2014	M/S Artoffice Furniture Ltd	Supply of furniture and equipment	704,980
31-01-2014	M/S Artoffice Furniture Ltd	Supply of furniture and equipment	1,161,000
20-11-2013	M/S Viable Deco Solutions	Office furniture and equipment	16,870,260

20-11-2013	M/S Art office Furniture Ltd	Office furniture and equipment	7,770,000
20-11-2013	M/S Lee steward Investment Ltd	Office furniture and equipment	3,055,000
		<b>TOTAL</b>	<b>37,696,449</b>

The award of contracts totaling Kshs. 37,696,449 was not designed as split orders since they were requisitioned at different dates by different departments as and when need arose. Offices were being renovated and furniture and equipment were acquired at different times. Officers were being appointed or recruited at different times and therefore procurement of curtains, shears and office equipment were procured on the basis of as and when required. The flow of funds to the County was also spread prompting us to spread the contract award for the supplies to ensure timeliness on payment to suppliers.

Counter requisition and issue voucher (S11) showing the distribution and receipt of furniture by various department have been included in our responses as a **separate file** and marked as **File No. 4**.

#### **Auditor's Remarks**

The Auditor confirmed to the county that there was no financial loss on the part of the County since all the furniture was supplied and the documents submitted have since been verified.

#### **Committee Observation**

The Committee observed that although there was no financial loss, procurement of similar goods and services should not be split.

#### **Committee Recommendation**

The Committee recommends that the Audit Query be cleared.

#### **2.2.2 Unbudgeted for Procurement of Graders and Drum Rollers**

During the period under review, the County Works and Transport Sector incurred expenditure totalling Kshs.66,096,000 on procurement of two (2) graders and two (2) drum rollers from a supplier. It was observed that the expenditure had not been planned and budgeted for in the year 2013/2014 and no authority for budget revision from the County Assembly was made available for audit verification. Work plan and work tickets for operations were not made available for audit verification.

#### **Management Response**

The Management admitted to the Audit Query and informed the Committee that during the financial year 2013/2014, there was a budget of Ksh.188,500,000 for the purchase of machineries for Public Works.

The County Government awarded contracts for purchase of the machineries with total sum of ksh 181,342,000 as indicated below:

2 Graders ksh 47,708,000

1 Rollers Ksh 9,194,000

1 Wheel loader Ksh 18,690,000

2 Excavator Ksh 39,338,000

1 Low loader ksh 12,412,000

3 Tipper ksh 54,000,000

During the financial year under review, the County Government did not have work plans since it was the first year of the Government and there were capacity gaps.

Approved budget extract for the period and work tickets for operations marked Annex 8, were provided to the Committee as evidence.

#### **Auditor's Remarks**

The Auditor informed the Committee that although money was not lost, requisite approval procedures were not followed by the management.

#### **Committee Observation**

The Committee observed that-

- Money for the expenditure was budget for in the Financial Year 2013/14;
- There was no loss of funds; and
- The County Assembly did not approval the expenditure.

#### **Committee Recommendation**

The Committee recommends that the Audit Query be cleared.

#### **2.2.3 Procurement of Furniture**

During the period under review, a Company was paid Ksh.4, 410,000 to supply furniture to the County Health Service Sector. The delivery notes attached on the payment vouchers were not signed and the Inspection and Acceptance Committee certificates were signed by one member out of three (3), members. Under the circumstances, it was not possible to confirm that the furniture were received by the County.

#### **Management Response**

3.2.3 Delivery notes attached on payment Vouchers for Kshs 4,410,000.00 not signed

The Management admitted to the Audit Query and in mitigation informed the Committee that the inspection certificate was signed by one officer due to shortage of staff in procurement department. The few Inspection officers we had, were spread across departments. The officers also lacked capacity on matters procurement. This notwithstanding, the Committee heard that goods were received and evidence marked as Annex 9 were submitted to the Committee.

The Governor informed the Committee that he has since hired sufficient and qualified personal on procurement matters. He undertook to ensure such a lapse does not recur again.

#### **Auditors Remarks**

The Committee informed the Committee that there was evidence of the goods delivered, however the inspection certificate was signed by one officer instead of three.

#### **Committee Observation**

The Committee noted the mitigation by the Governor on the shortage of staff and the information that goods were delivered and verified by auditors.

The Committee further noted the challenges that affected the Counties at the dawn of devolution.

#### **Committee Recommendation**

The Committee having noted the mitigation and the advisory of the auditors recommends that the Senate Clears the Audit Query.

The Committee further recommends that the County undertake capacity building for the newly recruited officers.

#### **2.2.4 Payments before Tender Award**

Physical Planning and Development Department paid three (3) contractors a total sum of Kshs.5,795,000 on 28 March 2014 for the latrine renovation and garbage collection. However, tender award was done on 4 April 2014. Consequently the competitiveness of the tender could not be confirmed.

#### **Management Response**

The management admitted to the audit Query on the payments before Tender Award for renovation and garbage collection totaling Kshs. 5,795,000 and informed the Committee that the tender award minutes attached to the voucher had erroneous dates since the actual sitting was on 24<sup>th</sup> March and not on 4<sup>th</sup> April. The tender committee meeting held on 14th April had actually noted the error and recommended correction although this was not captured in the main document. The payment voucher therefore captured the minutes before amendments.

The mix-up of documents was occasioned by lack of capacity in the procurement unit and the learning process of the few employees who were in procurement department.

The tender minutes recommending corrections marked as Annex 10 were submitted to the Audit office and the Committee as evidence.

The Governor informed the Committee that disciplinary action had been taken on the officer who took the minutes.

#### **Auditors Remarks**

The Auditor Confirmed that the payment voucher captured the minutes before amendment and adoption.

#### **Committee Observations**

- I. The observed that the mitigation by the Governor,
- II. The Committee however expressed disappointment on the level of incompetence on the officers who took the minutes and noted that it bordered on negligence.

#### **Committee Recommendation**

The Committee recommends that the Audit Query be cleared.

#### **2.2.5 Inflated prices for Fire Proof Cabinets**

The County Physical Planning and Development department paid a Supplier in the month of October 2013 Kshs.1,325,000 for supply of five (5) Fire Proof Cabinets each costing Kshs.265,000. However the Public Procurement Oversight Authority recommended prices for October 2013 was Kshs.157,357 per piece. The County Government would have saved Kshs.538,215 had they used the recommended price.

#### **Management Response**

The Management admitted to the Audit query on inflated prices for Fire Proof Cabinets totaling to Kshs. 1,325,000.00 and informed the Committee in mitigation that there are different types of fire proof cabinets with different makes, quality, Country of origin, hence different features. PPOA has given a general indication which can only serve as a guideline and is applicable to Nairobi and Mombasa. For the case of Kisii County, the fire proof cabinets procured are of high quality with features similar to a safe including coding system. Further, market analysis of the same make of fire proof cabinet in Nairobi shows that it's selling at a price range of Kshs.198,000 to Kshs. 199,000. After adding transport cost, supplier margin and VAT, the price of Kshs.265, 000 seemed reasonable. The Governor informed the Committee the County was informed by the need to protect documentations from fire risks having noted that the problem had affected other counties.

#### **Auditor's Remarks**

The Auditor informed the Committee that they had not factored in the extra features of the fire Proof Cabinets at the time of audit.

#### **Committee's Recommendations:**

The Committee recommends that the Audit Query be cleared.

#### **2.2.6 Payment for Installation and Supply of Electricity**

The Environment sector paid a contractor Kshs.525, 470 for the design, construction and installation of Electricity (Transformer) at Marani Market. However, management did not disclose how the company was identified and payment determined. Kenya Power and Lighting Company which would usually supply such services was not contracted. The payment voucher was also not authorized for processing. It's therefore not possible to ascertain the propriety of the expenditure.

#### **Management Response**

The management admitted to the Audit Query and in mitigation informed the Committee that Kenya Power and Lighting Company which usually supplies the services of design, construction and installation of electricity (transformer) was contacted and gave a list of prequalified firms that are allowed to do the contract. The County Government was to finance the purchase of the transformer which was subsequently commissioned by KPLC and is fully functional. The Communications, commissioning report and list of prequalified contractors from Kenya Power and Lighting Company marked Annex 11 were provided as evidence.

#### **Auditor's Remarks**

The Auditor confirmed having verified a list of suppliers from KPLC and therefore the Audit query could be cleared.

#### **Committee Recommendations**

The Committee recommends that the Audit Query be cleared.

#### **2.2.7 Updating Fixed Assets Register and Valuation of Assets**

The County Government awarded contracts to two consultants to undertake valuation of County assets at a contract sum Kshs.8,500,000 and paid Kshs.1,500,000 for preparation and updating assets register however. the following omissions were noted:

- i. The assets register was not fully updated as it lacked entries such as the date of registration, location, suppliers' names, condition and cost price.

#### **Management Response-**

The Management admitted to the Audit Query and informed the Committee that the entries which were omitted in the asset register have since been incorporated. However, for assets which were inherited from the defunct local authorities, we still lack some information such as date of purchase, cost and the supplier name. Attempts to seek information from defunct local authorities were futile because they did not maintain proper records making it difficult for us to indicate the information in the Asset register. Copies of valuation report and Asset register marked as File No. 5, was provided for verification by the Auditor and the Committee.

#### **Auditor's Remarks:**

The Auditor confirmed to the County had submitted an asset valuation report and asset register for verification. However although some entries which were not provided for earlier have since been reflected, the document still lacks in details.



### **Committee's Observations:**

The Committee observed that-

- The County Executive had updated its fixed assets register but the updated register did not cover the fixed assets from the defunct local authorities;
- The matter of updating the register of fixed assets and liabilities was being undertaken by the Inter-Governmental Relations Technical Committee (IGRTC).

### **Committee's Recommendations:**

The Committee recommends that the Audit Query be put on hold until the Inter-Governmental Relations Technical Committee (IGRTC) concludes updating the register of assets and liabilities of County Governments.

- ii. Title deeds for Land parcels with total value of Kshs.2, 075,300,000 listed in the assets register were not availed for audit verification.

### **Management Response**

The management admitted to the Audit Query and informed the Committee that the Parcels of land were held in trust by the defunct local authorities hence there were no title deeds issued.

### **Auditor's remarks**

The matter has not been resolved.

### **Committee Observation**

- a) The Committee expressed concern that a poorly managed transition period may have put counties at the risk of losing its valuable assets.
- b) The Committee further noted the land was held in trust by the defunct local authorities hence no title deeds were issued and fraudsters may take advantage of poor transition mechanisms.
- c) That the process of updating the assets register was an ongoing process by the IGRTC

### **Committee Recommendations**

The Committee recommends that-

- The County Executive should update its asset register by reflecting all the necessary details of the assets and also secure title deeds for all parcels of land owned by the County Government.
- The Audit Query be put on hold until the Inter-Governmental Relations Technical Committee (IGRTC) concludes updating the register of assets and liabilities of County Governments.
- iii. The fixed assets register reflects ninety four (94) undeveloped parcels of land owned by the County which may be prone to encroachment.

Under the circumstance, the fixed assets register does not reflect the accurate position of the County assets.

### **Management Response**

The management admitted to the Audit Query and informed the Committee that the County Government is waiting for the handing over to be concluded by Transitional Authority so that the parcels can be surveyed and registered in the name of the County Government. So far the said handing over is yet to be concluded.

### **Auditors Response**

The Auditor informed the Committee that the matter had been undertaken but not conclusively.

### **Committee Observation**

The observed the process of updating the assets register was an ongoing process by the IGRTC.

### **Committee Recommendations**

- The County Executive should update its asset register by reflecting all the necessary details of the assets and also secure title deeds for all parcels of land owned by the County Government.
- The Audit Query be put on hold until the Inter-Governmental Relations Technical Committee (IGRTC) concludes updating the register of assets and liabilities of County Governments.

## **2.3 EXPENDITURE REVIEW**

### **2.3.1 Procurements of Insurance Services**

During the period under review, the Finance sector paid Kshs.49, 467,739 to an Insurance Broker as premium against insurance taken with two (2) Insurance Companies. The Broker was awarded contract through Request for Quotations (RFQ) instead of open tendering as stipulated by Public Procurement and Disposal Act, 2005 and Regulations 2006. Further, the premiums were paid directly to the broker instead of the underwriters contrary to regulations by the Insurance Regulatory Authority of Kenya.

### **Management Response**

The Management admitted to the Audit Query and informed the Committee that -

The insurance services were procured at different times to cover different risks at different points in time as analyzed hereunder.

No.	Dates	Item description
1.	30/01/2014	Provision of insurance for cash in transit, fidelity guarantee, burglary and public liability

2.	10/01/2014	Insurance group personal accident (GPA) - 750 Employees
3.	06/01/2014	Medical cover for senior staff
4.	24/01/2014	Fire and perils insurance of major buildings and furniture
5.	02/12/2013	Comprehensive insurance cover for vehicles
6.	24/01/2014	Comprehensive insurance cover for ten new vehicles
7.	30/01/2014	Insurance cover for workmen injury benefit and employer liability
8.	02/09/2014	KCG/QT/131/2013-14 Insurance cover for vehicles

The above insurance services were awarded through Request for Quotations from prequalified suppliers since open tender would have taken longer and the county assets and employees were at risk as the county was at the formative stage. Further, there were capacity gaps in procurement hence delays in effecting procurement procedures. The County cabinet meeting held on 3<sup>rd</sup> October 2013 also discussed the matter and the urgency thereof. The premiums were directly paid to the broker and is in line with the provisions of the Insurance Act, 2013 chapter 487 of the laws of Kenya which allows registered persons to represent an insurer. Further, the Act allows the registered persons to collect premiums and deposit with, or dispatch to the insurer before commencement of insurance cover Article 156 (8) is marked as *Annex 12*.

#### **Auditor's remarks**

The Committee was informed that although there was no loss of funds procurement of goods and services should not be rushed and the law should be adhered to.

#### **Committee Observations**

The Committee observed that-

- Procurement procedures were flouted by the County Government in its attempt to rush to secure the County from risks.
- The County Executive may have followed the provisions of the Insurance Act, 2013 Chapter 487 of the laws of Kenya but comprehensive law covering procurement of goods and services should be complied with.

#### **Committee Recommendations**

The Committee recommends that the Audit Query be cleared.

#### **2.3.2 Leasing of Ambulance vehicles**

The County Government entered into a one year operating lease agreement with a Non - Governmental Organization (NGO) on 22 October 2013 for the lease of nine (9) ambulances at a monthly cost of Kshs.600, 000 per ambulance (Kshs.64, 800,000 per year). However, during the

tendering process, the per diem for the (NGO) staff and fuel were never disclosed but only included in the contract document. Total Payments made for the six months totaled Kshs.38,356,506 including per diem for the (NGO) staff and fuel expenses. Records on how the county monitors the movement of these ambulances were not availed.

The County Government should consider it prudent to acquire new ambulances for operation in order to receive value for money. Evaluation on whether to buy or lease was not carried out.

#### **Management Response**

The management admitted to the Audit Query and informed the Committee that the county government opted to lease nine ambulances as a contingency measure of offering ambulatory services as we waited for purchase of our own ambulances. The idea was to use the services of the Kenya Red Cross Society who are experienced in handling those service as we prepared to recruit our own paramedics, buy equipment and put in place our own ambulance system.

In mitigation the Governor informed the Committee that the county has subsequently purchased its own ambulances and we are no longer leasing the services.

Records on how the county monitored the movement of the ambulances and work marked as evidence Annex 13(a) were availed to the Auditor and Committee for verification.

A cost benefit analysis was done and submitted to the Auditor and the Committee marked as Annex 13(b).

#### **Auditor's remarks**

The Auditor confirmed to the Committee that subsequently the County purchased its own ambulances however diligence and compliance in the procurement of goods and services should be complied with.

#### **Committee Observation**

The Committee observed that County Government lost money by entering into contracts that had a value of acquiring new ambulances.

#### **Committee Recommendation**

The Committee recommends that the Audit Query be cleared.

#### **2.3.3 Payment to the Council of Governors**

The County Government in the month of October 2013 paid Council of Governors Kshs.300,000 to support the work of the Council. The Council of Governors as created under the Inter-Governmental Relations Act, 2012 Section 19 should be financed through the annual estimates of the Revenue and Expenditure of the National Government as per Section 37 of the Act. The propriety of the expenditure incurred therefore could not be confirmed.

#### **Management Response**

The management admitted to the Audit Query and informed the Committee that the payment to the Council of Governors was paid following the resolution of the COG meeting held on 13th September, 2013 at Safari park hotel Nairobi, followed by a letter dated 16th September, 2013 requesting for remittances from the county governments. Copies of minutes and letter from the COG sanctioning the remittance marked Annex 14 were submitted as evidence.

#### **Auditor's remarks**

The Auditor informed the Committee that the payment to the Council of Governors was an illegal payment.

#### **Committee Observations**

The Committee observed that-

- The Council of Governors is an institution established by an Act of Parliament with clear functions and IGRTC as its secretariat;
- That IGRTC is funded under the Ministry of Devolution;
- Although the Council of Governors had established its own secretariat and was not using IGRTC, the secretariat was not established in law.

#### **Committee Recommendations**

The Committee recommends that-

- The County Government should liaise with the National Government for a refund of the amount paid erroneously; and
- The National Government establish a budget line to fund the operations of the Council of Governors.

#### **2.3.4 Honoraria, Overtime and Lunch Allowances**

During the year under review, the Finance Sector paid honoraria allowances totaling Kshs.1, 035, 500 to Tender Committee Members and procurement department officers involved in processing tender documents. Further, Kshs.2, 236, 500 was paid as overtime and lunch allowances to officers as compensation for working beyond normal hours. However, management did not disclose the authority/circular for the payment of the allowances taking into consideration that the officers should have carried out the duties during their normal working hours.

#### **Management Response**

On the Honoraria Allowances the Management admitted to Audit Query and informed the Committee that the payment of Kshs.1, 035,500 to tender committee members is in line with the legal notice no. 174 on Public Procurement and Disposal Act 2005 section 12 (5) which stipulate that "members of the tender committee may be paid such honoraria as the procuring entity may determine.

(Authority letter, extract of the Act and tender minutes marked as Annex 15 submitted to the Auditors and the Committee as evidence).

On the Lunch Allowances the management admitted to the Audit Query and informed the Committee that the payment of lunch allowances was necessitated by the need to work beyond normal working hours due to exigencies of work considering that the county government was in its formative stages and there was staff shortage and technical gaps requiring us to work overtime. As a motivation the County Government was prompted to pay lunch allowances and overtime allowances since they could work away from duty station and over weekends.

### **Auditor's Response**

The County has not established an internal policy on payment of honoraria and overtime allowance to the tender committee and that officers are eligible to pay only outside work stations.

### **Committee Observations**

The Committee observed that-

- Although the management acted within the law in the payment of Honoraria and overtime allowance, the county had not developed a policy to determine the rate of these payments; and
- The County Executive acted outside the law by making payment of meal allowances within the work station.

### **Committee Recommendation**

The Committee recommends that;

- i. The County Executive should determine the rate of honoraria payable to the tender committee members;
- ii. The County Executive should develop a policy to guide the eligibility of payment overtime allowance;
- iii. Meal allowance should be paid only when officers work outside their working stations.
- iv. Full recovery to be made upon failure to support payment of the above allowances and honoraria.

### **2.3.5 Payment of Transport Allowances**

The County Government paid transport allowances of Kshs.20,000 per month to each ten (10) County Executive Committee (CEC) members in the month of January and February 2014, despite the CECs having official transport allocated to them. Transport allowance totaling Kshs.400,000 was spent contrary to the Salaries and Remuneration Commission circular ref. SRC/TS/CGOVT/3/61 dated 20 August 2013.

### **Management Response**

The management admitted to the Audit Query and informed the Committee that the County Government erroneously paid ministers for two months while they enjoyed the benefit of county vehicles. The anomaly has been noted and will be recovered from their salaries. The recovery authority together with stoppage letter marked as Annex 16 was submitted as evidence.

#### **Auditor's remarks**

The recovery mechanism has not been instituted.

#### **Committee Observation**

The Committee observed that the actual deductions to recover the payment of undue transport allowance had not commenced.

#### **Committee Recommendations**

The Committee recommends that-

- i. Full recovery should be made on the Kshs.400, 000 being transport allowances paid to CEC Members for the period they were allocated official transport; and
- ii. The Audit Query stands until such a time that the money is recovered in full.

## **2.4 REVENUE RECORDS**

### **2.4.1 Revenue Collection and Banking**

Analysis of the revenue collection and banking for the period under review revealed the following:-

- i. Revenue collection analysis for nine (9) sub-counties availed for audit review revealed unbanked revenue totalling Kshs.3,299,610 contrary to the Public Finance Management Act, 2012 and the existing Financial Regulations;

#### **Management Response**

The management responded by informing the Committee that under banking figure of Kshs. 3,299,610 was as a result of forgery of banking slips by a cashier at Kisii town. We noted the anomaly and the matter was reported to the police and a manhunt ensued for the cashier. Unfortunately, the cashier committed suicide when he realized the police were looking for him thereby making it impossible to recover the cash lost.

#### **Auditor's remarks**

The Auditor informed the Committee that the county had not showed evidence of recovery of the money.

#### **Committee Observation**

The Committee observed that with the death of the fraudster the recovery for the money had become a bad debt.

### **Committee Recommendations**

The Committee recommends that-

- a) The County Executive should enhance the revenue collection system and also implement the C-IFMIS for efficient and effective revenue collection;
  - b) All the revenue collected should be banked in the County Revenue Fund Account;
  - c) The County Executive should procure cash handling insurance to protect the county from the risk of such loss;
  - d) The Chief Officer responsible for Finance be reprimanded for not instituting mechanisms to protect collection of revenue; and
  - e) The Audit Query be cleared.
- ii. The county entered into a Private Partnership with a bank upon which the bank will collect parking fee, motorbike licensing, bus and matatu parking fees. The terms and condition of agreement and the revenue collected were not made available for audit verification;

### **Management Response**

The management responded by informing the Committee that the County Government entered into public private agreement with diamond trust bank for revenue collection on a pilot basis. The contract agreement marked Annex 17(a) were submitted as evidence.

### **Auditor's remarks**

The Auditor informed the Committee that the documents had been availed for audit verification but expressed disappointment for failure that the documents were not availed at the time of audit.

### **Committee Recommendation**

The Committee recommends that the Audit Query be cleared.

- iii. Kisii Level 5 Hospital collected revenue totaling Kshs.1, 835,591 between July 2013 and February 2014. The revenue was not banked into the County Revenue Account, but spent directly contrary to the requirements of Public Finance Management Act, 2012;

### **Management Response**

The Management admitted to the Audit Query and provided mitigation response that the county Government had intended to protect the Hospital cash crunch with had hit the county due to slow exchanger releases. The Committee further heard that a bill to legalize expenditure at source is at its third reading at the Kisii County Assembly as per PFMA 2012 article 109 (2b).



### **Auditor's remarks**

The County had not complied with the law by illegally spending revenue at source.

### **Committee Observation**

The Committee observed that the County Executive had spent the money at source without a legal framework.

### **Committee Recommendation**

The Committee recommends that the Audit Query be cleared.

- iv. The balancing of all revenue cash books were done in pencil and not in permanent ink.

### **Management Response**

The Management regretted the anomaly and informed the Committee that the situation had since been rectified and committee to ensure it will not recur.

### **Auditor's remarks**

The Auditor informed the Committee that the actions of balancing of revenue cash books in pencil and not in permanent ink was against the PFM Act

### **Committee Observations**

The Committee observed that-

- The actions of the officer who recorded revenue cash books with pencil bordered on negligence.
- The County Executive acted in contravention of provisions of the PFM regulation by making financial records using a pencil which has no indelible ink.

### **Committee Recommendations**

The Committee recommends that the Audit Query be cleared.

- v. Handing over report of the revenue balance that was inherited and the unused receipt books handed over as at 4 March 2013 when the County came to existence were not availed for audit verification. Consequently, the accountability of the revenue collected could not be confirmed.

### **Management Response**

The Management admitted to the Audit Query and informed the Committee that when the county government came into being, the Interim County Treasury took over the bank accounts of the defunct local authorities and closed them. All the revenues in the bank accounts were transferred

to the new Kisii County Revenue collection account. There was no handing over that took place since the officers collecting revenue for defunct local authorities continued to collect revenue for the Government.

Closure instructions for those banks together with closure advice from respective banks marked as Annex 17(b) were submitted as evidence.

#### **Auditor General's remarks**

The Auditor General informed the Committee that all the relevant documents had been submitted though belatedly and verified to the satisfaction of the Auditor General.

#### **Committee's Recommendation**

The Committee recommends that the Audit Query be cleared.

- vi. The County revenue collection software known as C-IFMIS or LAIFOM is yet to be put into use and no explanation was provided. Under the circumstances, the accuracy of revenue collection could not be confirmed.

#### **Management Response**

The management admitted to the Audit Query and informed the Committee that the LAIFOM system was a system used by the defunct local authorities. When the county government took over, it was important for the system to be re-designed to accommodate the merged local authorities and the provisions of the Finance Act 2013/2014. When the technical issues were addressed the system was operationalized in all sub counties and is now in use.

#### **Auditor's remarks**

The Auditor confirmed that the systems are now operational.

#### **Committee Recommendation**

The Committee that the Audit Query be cleared.

## **2.5 HUMAN RESOURCE MANAGEMENT AND PAYROLL**

### **2.5.1 Payment of Salary without Deducting P.A.Y.E**

The Hospital paid salary to eight (8) employees who were hired on contract without recovering Pay as You Earn(P.A.Y.E) totaling to Kshs.144,082 contrary to Income Tax Act Cap 470. The County Government may incur penalties and interest for non-recovery and remittance of income taxes.

#### **Management Response**

The management admitted to the Audit Query and informed the Committee that the employees in question were hired on casual basis and there was an omission in deducting P.A.Y.E on their casual wages. As for permanent employees, the deductions and remittances were done as

appropriate. The county government is now in compliance and all taxes are paid accordingly evidence of deductions were submitted as evidence.

### **Auditor's Remarks**

The Audit informed the Committee that the county has since complied with the deductions and remittances requirements of the law.

### **Recommendation**

The Committee recommends that-

- The Audit Query be cleared;
- The County Executive should recover P.A.Y.E and remit to KRA as per Income Tax Act Cap 470.

### **2.5.2 Payment of Tuition Fees for Medical Staff**

During the year, Kisii Level 5 Hospital paid Kshs.595, 600 fees for seven (7) officers who were pursuing various courses at Kenya Medical Training College (KMTC) and Kenyatta National Hospital through cost sharing funds. However, the authority for the payment was not availed for audit verification.

### **Management Response**

The management admitted to the Audit Query and informed the Committee that the officers had approval from the County Director of Health who was then the Acting Chief Officer of Health. Attached minutes for the training committee approval and letters of admission marked Annex 18 was submitted to the Committee as evidence.

### **Auditor's remarks**

The Auditor confirmed receipt of approval documents and verification

### **Committee Recommendations**

The Committee recommends that the Audit Query be cleared.

## **2.6 COUNTY INFORMATION TECHNOLOGY ENVIRONMENT**

### **2.6.1 IFMIS, G-PAY and LAIFOMS**

A review of the IFMIS, G-PAY and IPPD systems revealed that the systems are not interfaced and the integrity and accuracy of information uploaded from one system to another could not be ascertained.

All the relevant data had not been captured in the system and information update were not accurate. There are cases of an officer operating both IFMIS and G-Pay at the same time resulting to lack of internal checks.

A review of the accounts set up and access rights granted to staff within IFMIS revealed the following weakness:

- i. There are no approved standard authorization cards used in granting access to the system.
- ii. Users have been granted conflicting roles where certain users can perform a transaction from initiation, processing, reversal and reconciliation.
- iii. The logical access controls are weak given that the users are not prompted to change the password upon the first log on and also all passwords are being shared by the system operators through access to individual user set-up account.
- iv. IFMIS accounting system had not maintained system logs for all the transactions processed within the system since as the operators are sharing passwords it defeat the logic of having system logs.

### **Management Response**

The management admitted to the Audit Query and informed the Committee that the systems did not have real time integration at the time and had to rely on some human intervention to upload documents. The three systems could not therefore have the same information at all times.

Due to lack of enough human capacity, the county was forced to have the same officer operate both GPAY and IFMIS under different access rights and roles. Currently there is enough capacity and the access rights are authorized as per guidelines from National Treasury.

- i. True; the use of cards has not been implemented by national treasury, however we use passwords and virtual private networks to maintain system security.
- ii. IFMIS user access rights are created by IFMIS department and the system is able to manage conflicting roles.
- iii. There are procedures on acquisition of new passwords as outlined by National Treasury. Passwords for different roles in IFMIS were given and each role had a single user initially. The passwords were regrettably shared temporarily when the County received new employees. During this time the finance department had a lot of work and the creation of new employees in the system by the National Treasury was taking a bit of time.

These individual login credentials are now active and each user has rights to change their passwords.

GPAY had prompts for password change every fortnight and its administration is done by county systems administrator.

### **Auditor's remarks**

The Auditor informed the Committee that subsequent improvements have been made in the management of IFMIS accounting system.

### **Committee Recommendations**

The Committee recommends that-

- The County Executive should ensure that the system is configured to maintain all system logs automatically in order to ensure that audit trails are maintained;
- The system logs should be regularly reviewed by the system administrator and a report issued to the management; and
- The Audit Query be cleared.

### **2.6.2 Service Level Agreements with System Vendors**

The County does not have Service Level Agreement (SLAs) with vendor of IFMIS Accounting package, IPPD payroll package and C-LAIFOM billing package to explain the expectation and the responsibilities of the systems' vendors for maintenance and upgrading of the systems.

#### **Management Response**

The Committee admitted to the Audit Query and informed the Committee that most of the Systems used currently were inherited by the County governments from the National Government. These include IFMIS, IPPD, LAIFOMS and GPAY. The vendors are only known to the National Government who should be having SLAs with them. GPAY system vendors have their own agreements with the Central Bank of Kenya and not the County Government. This is also the case with IPPD which is developed and supported by government staff.

#### **Auditor's remarks**

The Auditor confirmed the response by Management to be correct.

#### **Committee Observation**

The Committee observed that-

- There was no way the county Government could have service level agreements given that that IFMIS, IPPD and GPAY Systems are used across the two levels of Government; and
- The National Government is the Custodian of the Systems.

#### **Committee Recommendation**

The Committee recommends that the Audit Query be cleared.

### **2.6.3 Server Room**

Inspection of the server room revealed the following weaknesses:

- i. The physical access controls are not adequate as the door to the server room is not under lock and key. It is also accessible to unauthorized persons.
- ii. The space for the Server is inadequate as it also houses the System Administrator, and G-Pay server is housed under Deputy Director of finance office. IPPD server is housed under payroll supervisor office.
- iii. The room is not air conditioned so as to regulate the temperatures given that servers run for long hours thus they may heat up.
- iv. The servers are placed on the table thus exposed to dust and water.

- v. There are no smoke detectors and fire extinguishers within the server room
- vi. The County Government has dedicated one of their computers to be the server. The same computer is also used for other transactions.
- vii. The user set up is such that two users have one password.

### **Management Response**

There was complete lack of ICT infrastructure at the inception of the county government. At the time of the audit the county was undertaking renovations of a shared data center and recovery site.

The data center is now complete and able to provide the best environment for application servers, network devices and other equipment. It has the following subsystems and environmental conditions highlighted during the audit:

- Cooling systems
- Adequate racks space for expansion
- Physical security with biometric access control
- Raised floor and ample lighting
- IP surveillance system
- Power backup system
- Fire suppression and smoke detection system
- Monitoring system

All servers are currently housed in the main data center with recovery site currently under renovation at the county treasury. All connections from client computers are made over the network to respective servers.

Physical photos of sections of the server room were provided to the Committee as *Annex 5*.

### **Auditor's Remarks**

The Auditor informed the Committee that the renovations have been verified and the mitigations are correct.

### **Committee Recommendation**

The Committee recommends that the Audit Query be cleared.

## 2.7 PRIOR YEAR OUTSTANDING ISSUES

### 2.7.1 Handing Over of Assets and Liabilities of Defunct Local Authorities

The handing over of the assets and liabilities of the defunct local authorities had not taken place at the time of audit a year after the County Government came into existence.

#### Management Response

The management admitted to the Audit Query and informed the Committee that that handing over of assets and liabilities had not been concluded. This was because the Transitional Authority was to carry a survey to verify the existence of the assets and liabilities, including valuation of the assets.

#### Auditor's Remarks:

The Auditor informed the Committee that although this issue was a dominant challenge across all counties, each county government should conclude its listing and verification of the assets and liabilities through the inter-agency committee spearheaded by the Transition Authority.

#### Committee Observation

The Committee observed that although the process of assets and liabilities registers verification was on-going at a national level, the County government should hasten its internal mechanisms for the listing and verification of its assets and liabilities.

#### Committee Recommendation

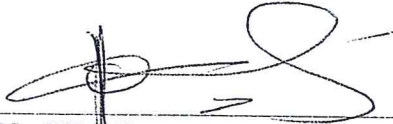
The Committee recommends that-

- The County Executive should keep an up-to-date record of the assets acquired by the County Government since inception to avoid future challenges.
- The Audit Query stands until such a time that this process of updating the assets and liabilities register by the IGRTC is completed.

#### MIN.NO.026 /2017 ADJOURNEMENT

The meeting was adjourned at 5<sup>th</sup> April, 2017 to resume consideration and adopt the report of Kilifi County Executive on at 9.00am.

Signature: \_\_\_\_\_

  
SEN. (PROF.) ANYANG' NYONG'O, MP  
(Chairperson)

Date: \_\_\_\_\_

06/06/2018

