

**Managing Director**  
**Tana and Athi Rivers Development Authority**  
**P.O. Box 47309-00100**  
**NAIROBI**

*Dear Sir,*

**RE: SYSTEMS AUDIT MANAGEMENT LETTER FOR TARDA 2009/2010 FINANCIAL YEAR.**

**1.0 INTRODUCTION**

The TARDA Systems Audit for the financial year 2009/2010 has been finalized. The audit was designed and planned to test on a sample basis if the financial and other records maintained conform to the existing Internal Control Systems and the effectiveness of these controls in the management of the Public Resources. The following observations made are forwarded to you for information, comment and necessary action.

The issues highlighted were discussed during the exit meeting held on 29<sup>th</sup> June 2010.

**2.0 ECONOMIC STIMULUS PROGRAMME**

**Observations**

Economic stimulus programme in Tana Delta Irrigation project is a joint programme between TARDA and the Government to rehabilitate 4000 acres of land in Tana Delta region for emergency food production. The project was intended to put under irrigation 1500 acres of rice and 2500 acres of maize. The following observations were made on the implementation of the project.

**2.1 Hire of Heavy Machinery**

*CRITERIA – Public Procurement and Disposal act of 2005.*

**Observation**

During the Tender Committee meeting held on 19<sup>th</sup> August 2009 the Committee was requested to approve the use of direct procurement method for hire of equipment and machinery for the emergency food production at Tana Delta Irrigation Project. The request was approved. During the same meeting approval was given for hire of machinery and equipment from the Ministry of

Public Works but payment of mobilization fees to be made once the equipment was delivered on site. It was further noted that during the Tender Committee Meeting of 21<sup>st</sup> August 2009 attended by the Director of Regional Development, Ministry of Regional Development, he disregarded an earlier decision by the Tender Committee and came up with sample analysis of quotations received from various bidders to compute an average price for various categories of equipment and machineries. The Committees' decision was to award the contract to the contractors who would accept the harmonized rates. It is not clear how the sample was selected and what criteria was to be applied in case all the contractors were willing to take the rates offered; since they were three(3) times the approved government rate.

The following issues were also noted on the award of those contracts:-

- On 24<sup>th</sup> August 2009, the Director of Regional Development wrote a letter to TARDA directing that contract documents for hire of machinery must include a certificate on the condition and suitability of the equipment signed by him. It is not clear why the director was interfering with the procurement process by taking over the duties of Inspection Committee which had been appointed by the Tender Committee.
- It was noted that most of the machines were hired without the knowledge of TARDA only for them to be notified later that they should give the contracts to the contractors who were already working in TDIP.
- The rates used for hire of these machines were too high for example mobilization fee of Kshs 350 +VAT per kilometer for a low loader from Nairobi to Garsen i.e., 1,500 km translated to Kshs 609,000 for every type of machinery that was mobilized.

The rates for all categories of machinery were more than double the Government rates. It was noted that some of the contractors hired the Government machinery from the Ministry of Public Works and in turn hired them for TARDA. This was despite the fact that the ministry had offered the same machines to TARDA but the offer was declined.

### **Risk / Implication**

The Management failed to follow the procurement procedure as laid down in the Public Procurement Act. In the process, most of the budget provisions for the ESP programme were overspent.

### **Recommendation**

The management should ensure that procurement of goods and services is done in accordance within the provisions of Public procurement and Disposal Act of 2005.

## **2.2 Repair Water Gates at TDIP**

## *Criteria*

### *Public Procurement and Disposal Act of 2005*

#### **Observation**

The rehabilitation of Tana Delta Irrigation Project involved among others the repair of water steel gates for irrigation canals. The Tender Committee held on 15<sup>th</sup> September 2009 approved the use of direct procurement methods, subject to availability of funds. On 15<sup>th</sup> September 2009, TARDA received "quotations from Security Products Ltd for Kshs 62,605,633.70 for replacement and commissioning of thirty-four (34) control gates. Consequently, a Negotiating Committee of six members was appointed to negotiate the price with the contractor. It was however noted that the negotiations did not take off due to budget constraints. The works had been allocated Kshs 5 million in the budget. The repair works were however, done in phases with the authority of the Director of Regional Development ministry of regional Development, who would forward Pro forma Invoices from the contractors for formalization and payment. The Tender Committee would then be notified of the implementation of the Director's request.

As at the time of this audit, a total of Kshs 45,314,698.64 had been paid to the contractor. There is no written contract between the parties.

#### **Risk/ implication**

Failure to adhere to the procurement procedures leads to procurement of overpriced products. The budgetary allocation for this item has been overspent by over 40 million since there was no additional budget on the project.

#### **Recommendation**

The management should ensure that public resources are utilized economically and within the laid down procedures

### **2.3 Purchase of Agrochemicals (Kshs 6.2 Million)**

#### **Observations**

On 19<sup>th</sup> August 2009, the Tender Committee approved the use of direct procurement method for purchase of agrochemicals for rice production at TDIP. The reasons given by the procurement unit was that the chemicals were urgently required for emergency food production programme. Quotations were invited and after evaluation the contract was awarded vide Tender Committee Meeting on 21<sup>st</sup> August 2009 to M/S Nutrichem E.A.Ltd. The following issues were noted on procurement of Agrochemicals:-

- The agrochemicals were delivered at TDIP on 27<sup>th</sup> August 2009. As at this time the bush clearing for farms had not started. The rice seeds had not been bought and they were never bought.

- Satunil Thiobencarb which was purchased at a cost of Kshs 3,975,000 is used for the control of weeds in rice fields and it is not clear why the procuring entity bought the weeding herbicides though they were never planted. As at the time of this audit, the agrochemicals were still lying in the store.
- It is not clear how and when the quotations were given since the authority to use direct procurement was given by the Tender Committee on 19<sup>th</sup> August 2009. The award of the contract was done by the Tender Committee meeting on 21<sup>st</sup> August 2009; on the basis that only Nutrichem E. A. Ltd had quoted for the supply of Satunil and was the lowest bidders for glyphosate. It is not clear how the procuring entity came to this conclusion within a day.
- The requisition from user departments was not availed for audit despite numerous requests.

### **Risk / implementation**

The Public Procurement Act is very clear on various methods of procurement and where each is applicable. The purchase of Agrochemicals through direct procurement was un procedural as it did not meet the conditions set out in the Act.

### **Recommendation**

The management should ensure procurement of goods and services are demand driven and within the law.

## **2.4 Contract for Installation of Electric Fence at TDIP**

### **Observations**

On 19<sup>th</sup> November, 2009 the team leader at TDIP wrote a memo to the Managing Director informing him that they had already planted 1,000 acres in Block A, C and D.

It was however, reported that the crop was under threat from monkeys and other herbivores which were invading the farms. It was proposed that an fence around the farms to protect the maize be erected. He however, noted that the ESP did not have a budget for such items and requested the Managing Director to source for funds for the project. The Managing Director approved the memo but was silent on the source of the funding.

The Tender Committee on 3<sup>rd</sup> December 2009 approved the use of restricted tendering methods and the use of KWS list of pre-qualified suppliers due to the urgency of the work required. The Tender Committee meeting on 22<sup>nd</sup> December 2009 awarded the contract to M/S Security Product Ltd at a contract price of Kshs 39,966,748.75.

The following issues were noted in the award of this contract:-

- The project was not in the Procurement Plan for the year.
- The project was not approved by the Board Of Directors;
- The project was not provided for under the ESP budget and TARDA's annual budget ;
- The Tender Committee approved the contract before establishing the source of funding;
- As at the time the contract was signed the maize in block A,C and D had matured and was ready for harvesting and so the issue of the electric fence being urgently required was not there;
- The electric fence does not cover the whole area under cultivation and therefore the animals will still find their way to the farm field;
- Cost benefit analysis on the project was not done. Although it was reported that 1,000 acres of maize was under threat from animals, it turned out that only about 550 acres had been planted. It is not clear why the team leader gave conflicting information.

#### **Risk/ Effect**

The Board of Directors is mandated to formulate policies and approval of acquisition of capital projects and assets. The management should involve the Board on such matters to avoid conflict between the board and the management.

## **2.5 Use of TDIP Machinery for ESP**

### **Observation**

The Economic Stimulus Programme in Tana Delta is a joint project between the Government and TARDA for the Emergency Food Programme. TARDA was required to provide land and manage the project by providing labor and other technical assistance. The Government was to provide funds for farm rehabilitation including hire of additional machinery and equipment and farm inputs. The Government also provided for funds for repair and maintenance of TDIP machinery and equipment working under ESP operator allowance, fuel and lubricants was also provided for .It was however noted that the TDIP equipments deployed to ESP programme were deemed to have been hired out to the project at the same commercial rates charged by the private contractors. Revenue earned was deposited in the TDIP savings account.

It is not clear why the equipment was deemed to have been hired at commercial rates whereas all maintenance and operating costs for the equipment were being funded from the same project. As

at the end of March 2010 a total of Kshs 15,060,537 had been earned from hire of machinery and equipment.

### **Risk / Implication**

It is not prudent to recognize the hire of TDIP machinery to ESP as revenue since the cost of generating the revenue has been charged to the same project.

### **Recommendation**

The Government has invested heavily in the rehabilitation of TDIP in both equipment and infrastructure which is of great benefit to TARDA. The ESP was a joint project between the two parties and TARDA should not charge the same project in the name of hiring out machines.

### **2.6 Daily Record Sheet of Machinery Hours**

Payments made to the contracted firms at the Economic Stimulus Programme - Tana Delta were made based on activities recorded in the Daily Record Sheet. The Daily Record Sheet is signed by the Plant Operator, TARDA Supervisor and the Task Manager.

### **Observations**

The Daily Records Sheets are supposed to be accountable documents. However TARDA's daily record sheets have not been serialized and there are no duplicates or book copies that can be used to ascertain the authenticity of the Daily Records Sheets being used as the supporting documents for payments to the contracted firms. Further, no odometer readings were recorded on the Daily Work Sheets hence making verification of the machine hours as recorded impossible.

### **Recommendation**

The Daily Records Sheets should be made accountable documents of the organization with the original being used by the Accounts Department. The duplicate should be given to the contracted firm and a triplicate remains being the book copy. All the copies should be carbonated for ease of verification and authentication.

TARDA should ensure that only machines with working odometers are engaged and the readings be indicated daily.

### **2.7 Piece Rate work for machines**

A Budget Review meeting was held at the Tana Delta Irrigation Project on 3<sup>rd</sup> March 2010. The meeting was attended by the Managing Director and the Director for Regional Development Authorities. It was agreed that based on season one, machine tender rates equivalent of hourly work output for the heavy machines which are performing the bulk of the work in season two be adopted.

This measure was apparently supposed to ensure maximum work output and to maximize on the utilization of the available funds. The following were the agreed rates:-

- All classes of bulldozers

A plot of 1.47 Ha bush clearing is equivalent to a piece work of 4 hours at Kshs 11,500 per hour.

- All classes and graders

A plot of 1.47 Ha fields leveling and grading is equivalent to 3 hours piece work at Kshs 11,000 per hour.

The new work methodology was to be presented to the Tender Committee on a later date for ratification.

### **Observations**

Based on the new methodology, M/S Iota Excavations and Rentals Limited did bush clearing on the 5<sup>th</sup> March 2010 in block E<sub>2</sub> and E<sub>4</sub> for a total area of 3.8 hectares. This was translated to 14 hours and 42 minutes as per Invoice No. 207 dated 22<sup>nd</sup> March 2010 for Kshs 169,050.00 paid vide Cheque No. 000541

It is evident that the new methodology is more expensive as it results in machine hours that are way above the normal 8 hours per day.

The method also makes the use of odometer readings irrelevant hence avoiding the use of the widely used method of ascertaining that a machine has actually worked. The use of the methodology before approval of the Tender Committee and non adherence to the approved rates by the Ministry of Public Works is irregular.

### **Recommendation**

Use of the recommended rates by the Ministry of Public Works as other implementing agencies of the Economic Stimulus Programme, should be observed.

## 2.8 Hire of casuals

### Observation

It was noted that a significant percentage of the ESP expenditure went to payment of casual wages as shown below:-

<b>Month</b>	<b>Amount (Kshs)</b>
August 2009	1,327,125.00
September 2009	1,370,250.00
October 2009	2,909,000.00
November 2009	5,167,750.00
December 2009	9,110,450.00
January 2010	4,046,320.00
February 2010	3,443,550.00
March 2010	<u>7,246,500.00</u>
<b>Total</b>	<b><u>34,620,945.00</u></b>

It was expected that with the high usage of machinery at the Tana Delta Irrigation Project, low labor force would be required.

### Risk

The efficiency and effectiveness of the high casual labor force averaging 1,200 casuals in a day is doubtful.

### Recommendation

The casual labour force should be reduced to a manageable size for increased economy and efficiency.

## 2.9 TDIP –ESP Allowances

### Observation

It was observed that since the commencement of activities at TDIP (October 2009) with the introduction of ESP programme, TARDA has been incurring an average of Kshs 4,231,450 per month on allowances not approved by the Board or Parent ministry to various categories of staff attached to the project as follows:



## Category A

Staff members paid per Diem per month:-

<u>Name</u>	<u>Dept</u>	<u>Amount Per Month</u>	<u>Total</u>
B.K. Theuri	CMPOM/TL	168,000	168,000
Timothy Ikiugu	CMCRP/TM Civil Works	168,000	168,000
Eng. J. Karanja	Engineering/TM Water	168,000	168,000
Maina Ngadu	Engineering/Canals	112,000	112,000

<u>Interns</u>			<u>Salary</u>	
Joseph Kombo	Engineering/Canals	140,000	56,475	196,475
Simon Gachara	Engineering/Canals	140,000	56,475	196,475
Martin Mureithi	Engineering/Interns	112,000	16,500	128,500
Bonface Magovi	Engineering/Interns	112,000	16,500	<u>125,800</u>
<b>Total</b>				<b><u>1,265,950</u></b>

## Category B

Staff members paid per Diem per month:-

<u>Name</u>	<u>Dept</u>	<u>Amount Per Month</u>	<u>Total</u>
Morrison Nyaga	Engineering/Fencing	140,000	140,000
John Githaiga	Engineering/Building	140,000	140,000
Tom Nganga	-DO-	84,000	84,000
Sospeter Chanya	Engineering/Surve	140,000	140,000
Nelson Okoth	Engineering/Plumbing	84,000	84,000
Justus Amdavi	Engineering/Survey	112,000	112,000
George Macharia	Engineering/Dyke	140,000	140,000
Charles Sumba	Engineering/Workshop	84,000	84,000
Charles Macharia	-DO-	84,000	84,000
Hezekiel King'ori	IT	84,000	<u>84,000</u>

**Total** **1,092,000**

**Category C.**

Staff members getting 25% of per diem allowances:-

<b>Name</b>	<b>Dept</b>	<b>Amount Per month</b>	<b>Total</b>
All TDIP staff	TDIP	1,190,000	1,190,000
James Osano	T Manager-Finance	50,000	50,000
Joseph Okoth	Finance	40,000	40,000
Priscilla Macharia	Finance	32,500	32,500
Philip Mutuku	Administration	15,000	<u>18,000</u>
<b>Total</b>			<b><u>1,330,500</u></b>

**Category D.**

Staff members getting Kshs 1,000 per day allowance:-

<b>Name</b>	<b>Dept</b>	<b>Amount Per Month</b>	<b>Total</b>
Mary Njoroge	MDs' Office	20,000	20,000
Hafsa tikolo	MDs' Office	20,000	20,000
Judy Njeru	Administration	20,000 +3000	23,000
Benjamin Mwakio	TDIP	30,000	30,000
Japhet Mwewe	TDIP	30,000	30,000
Andrew Moroni	TDIP	30,000	30,000
Keyhodosi Buya	"	30,000	30,000
George Maro	"	30,000	30,000
Kimanzi Kimolo	"	30,000	30,000
Felix Nyugi	"	30,000	30,000
Otieno Oswago	"	30,000	30,000
Daniel Kirumba	"	30,000	30,000
Joseph Kaggiko	"	30,000	30,000
Nicholas Tumaini	"	30,000	30,000
John Okidi	"	30,000	30,000
Mariam Wachu	"	30,000	30,000
Bakero	"	30,000	30,000
Phoebe Magazo	"	30,000	<u>30,000</u>
	<b>Total</b>		<b><u>543,000</u></b>

Further, it was noted that per diem allowances were paid to interns as well as to officers on temporary employment as follows:-

<b>Name</b>	<b>Department</b>
Joseph Kombo	Engineering/Canals
Simon Gachara	Engineering/Canals
Martin Mureithi	Engineering/Interns
Bonface Magovi	Engineering/Interns
Priscilla Macharia	Finance

#### **Risk**

The cost of per diem is too high and was not approved by the Board or Parent Ministry. Further it does not portray prudent financial management of public resources.

Further payment of per diem to individuals on internship and temporary employment is irregular

#### **Recommendation**

Regulations in force stipulate that per diem allowances should not be paid for more than three (3) continuous calendar months and in this case it would have been prudent to transfer the concerned staff members to TDIP and hence avoid payment of per diem.

Per diem allowances should only be paid to employees on permanent terms of employment to promote accountability

## **2.10 Analysis of Journal Vouchers (Imprest Surrenders)**

### **ESP Account**

#### **Observation**

A sample of journal vouchers (imprest surrenders) relating to the ESP account were analyzed and the following observations made:-

#### **Diversion of Funds-Kshs 316,393**

An imprest of Kshs 332,030 was issued to Morrison K. Nyaga (P/No.259) vide warrant no. 32834 on 4<sup>th</sup> November 2009. This amount was meant for construction of a Chiefs' office at Galili Location, Garsen as a Corporate Social Responsibility exercise.

The amount was accounted as follows:-

Fuel	Kshs	500
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Purchase of building materials	Kshs 258,144
Airtime	Kshs 1,700
Air ticket (Nairobi-Malindi)	Kshs 8,999
Transportation of building materials	Kshs 45,000
Hire of vibrator machines	Kshs 2,000
Toll ticket (Tana River County Council)	Kshs 50
Amount to refund	<u>Kshs 15,637</u>
<b>Total</b>	<b><u>Kshs 332,030</u></b>

It was noted that this item was not budgeted in the ESP programme and thus it was not ascertained as to why the funds were drawn without approval.

#### **Risk**

Diversion of funds from the initial intended programme may adversely affect the implementation of ESP programme

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#### **Recommendation**

Budgetary provisions should be strictly adhered to. The Corporate Social Responsibility should be budgeted for in order to minimize diversion of funds from TARDA's core activities.

#### **TDIP field visit by Chairman and a Director-Kshs 274,175**

#### **Observation**

An imprest of Kshs 274,175 was issued to Elizabeth Wambui (P/No. 0577) vide warrant no. 33160 of 21<sup>st</sup> December 2009 to facilitate a field visit to TDIP by the Chairman and a Director for the period from 23<sup>rd</sup> December -27<sup>th</sup> December 2009.

This imprest was accounted for as follows:-

#### **Name**

Eng. Muturi	1500kmx61.45	Kshs 92,175
Dr. Mzalendo	Air Ticket	Kshs 20,000
<b>Nightouts</b>		
Eng. Muturi	5x12, 000	Kshs 60,000
Dr. Mzalendo	6x12, 000	Kshs 72,000
Contingency Expenses (Director)		<u>Kshs 30,000</u>
		<b><u>Kshs 274,175</u></b>

The only supporting document made available was an Invoice No. 20442 of 22<sup>nd</sup> December 2009 of Debonair Travel Ltd and cash receipt no. 15787 of the same date amounting to Kshs.88, 720. This was in relation to the cost of an air ticket for the Director.

Further, out of the Kshs 274,175 drawn, only Kshs 88,720 is supported leaving a balance of Kshs 185,455 unaccounted for.

**Risk**

TARDA may not have obtained Value for Money from the above TDIP visit.

**2.11 ESP Budget Performance**

**Observations**

It was observed that TARDA had been allocated Kshs 348,650,000 for maize production and Kshs 71,350,000 for rice production and rehabilitation for machinery and buildings under the first phase of emergency food production.

The programme was to cover a total of 4,000 acres in Tana Delta Irrigation Project. The work plan was approved by the Project Steering Committee who is mandated to approve project work plans and related budgets to ensure adherence to project development objectives. It was however noted that TARDA ESP Phase I was not implemented as per the approved plan.

The following deviations were noted:-

The first phase was planned to put 2,500 acres of maize and 1,500 acres of rice under irrigation. This was not achieved and only 500 acres of maize was planted and harvested. The rice was not planted.

The Budget Allocation for various budget lines was overrun mainly due to the high rates used in the hire of machinery and lack of proper supervision on machine hours worked.

The inputs in terms of project funding and the output in terms of production levels achieved and the project expectations can only be classified as below expectation.

The budgetary controls and cash flow control were also lacking as at the end of phase one i.e. 31<sup>st</sup> December 2009, the cashbook had been overdrawn by over Kshs.7 million.

<u>Activity</u>	<u>Budget</u>		<u>Actual</u>	<u>Overrun</u>
	<u>Kshs</u>	<u>Kshs</u>	<u>Kshs</u>	
Rehabilitation of dykes	15,000,000	62,129,584	47,129,584	
Rehabilitation of headwork's	10,000,000	28,816,702	18,816,702	

Rehabilitation of TDMC	8,000,000	28,204,795	20,294,795
Rehabilitation of north main drain	9,000,000	10,255,966	1,255,966
Steel gates	5,000,000	45,514,698	40,514,698
Rehabilitation of secure roads	5,000,000	7,433,035	2,433,035
Administrative	6,000,000	21,206,522	15,206,522
Land preparation	10,000,000	12,710,186	2,710,186
Planting	3,600,000	4,493,715	893,715
Weeding and spraying	6,300,000	18,265,600	11,965,600
Co-ordination	10,159,000	23,046,850	12,887,850

### **Additional observations;**

Most of these budgets overrun were financed from re-allocation from other budget lines especially bush clearing which had an allocation of 160 million to cater for 4,000 acres but only 2,000 acres were cleared.

The re-allocation of most of the items done in October and November 2009, were not approved by the project steering committee which was mandated to approve project plans and budget through the TCC. It was however noted that some re-allocations were presented to the board in April 2010 for approval. It is not clear why the Management sought for approval from the Board when they had already overspent on the budget lines.

### **3.0 TRADE PAYABLES**

#### **Observation**

The Organizations ability to pay debts was on the decline.

The trade payables' balances have increased from Kshs 153,187,308 as at 30<sup>th</sup> June 2009 to Kshs 379,449,145 as at the end of March 2010. Among the notable creditors is Barclays Bank Trust Fund with Kshs 60,802,719 and Masinga Dam compensation with Kshs 206,122,400. It was observed that the Masinga Dam compensation debt arose from a court ruling which has been pending in court for a number of years. It is not clear why this debt was not factored in the 2008/2009 Financial Statements as a contingent liability.

#### **Recommendation**

The management should consult the Parent ministry on the way forward on the compensation issue taking into account that the assets under dispute were transferred to Kengen.

## 4.0 CASH AND BANK BALANCES

### Observations

It was observed that TARDA operates 24 bank accounts which include 18 bank accounts in the Regional Stations and six at the Head Office. The controls and checks instituted by Management for operation of these accounts were found to be inadequate.

The following issues were noted:-

- The cashbooks are not posted on a daily basis. In most cases, they are posted at the end of the month.
- The Head Office cash books are maintained on a two column basis. I.e. Bank Receipt and Bank Payment Columns only. Cash receipts, cash withdrawals and payments are not recorded in the cash book but on a separate column. It is therefore not possible for cash balances from the cashbook at a given date.

Funds transfer to Regional Officers is normally done through a savings account in the Regional Office. The funds are later transferred from the savings account to a current account operated by Regional Officers. The signatories for the regional savings accounts are Senior Officers at the Head Office. Sometimes money is also transferred from regional savings accounts to the Head Office. These fund transfers are very costly to the organization. The interbank transfers are cumbersome since most of them are not well documented and may lead to loss of audit trail.

### Recommendation

It is recommended that funds from the Head Office be transferred to the current account and the savings account be used strictly for revenue collection

## 5.0 MASINGA LAND COMPENSATION

### Observation

Reference is made to:-

*Civil Suit HCCC No. 108 of 2001-Embu –Joseph Mbindyo and others vs. TARDA*

The said Civil Suit has been pending in court since 2001. The court made a ruling in favor of the plaintiff and although an application was made seeking stay of execution pending the hearing and determination of TARDA's appeal, the Corporation has suffered a lot of embarrassment ranging from having office equipment taken away by auctioneers to having to pay Kshs 10,000,000 vide Cheque No. 010909 as security to the Embu Court.

### Risk

The Corporation failed in having the facts of an impending liability stated in its financial statements as a contingent liability in accordance with the provision of international accounting standard No. 37 for all the financial years from 2001.

#### **Recommendation**

Full disclosure of the liability should be made in the 2009/2010 financial statements.

### **6.0 INTERNAL AUDIT DEPARTMENT**

The Internal Audit Department is charged with the responsibility of assisting the management in its objective of financial management i.e. guarding against losses, irregularities or wastage, identifying weak internal control systems and recommending more appropriate internal controls to safeguard public funds.

#### **Observations**

An audit of the internal audit files revealed that the department presence is not felt in the TARDA projects and is not able to carry out its mandate as is required. No audit reports were availed to the external auditors on the ESP.

The availed audit reports do not point out the inherent weaknesses in the internal control systems, There appears to be no approved audit plans in place detailing the scope and timing of audit exercises

#### **Risk**

The internal audit reports cannot be relied upon to evaluate the internal control systems in place.

#### **Recommendation**

It is recommended that the management recognizes the importance of the Internal Audit Department and strengthen it for the effective utilization of public funds.

### **7.0 DEBTORS-ACCOUNTS RECEIVABLES**

#### **Observation**

The debtors' account balance as at 31<sup>st</sup> March 2010 was Kshs 1,266,365,113 which was an increase from Kshs 1,265,641,757 as at 30<sup>th</sup> June 2009.



It was observed that the outstanding debtors as at the period of this audit remained the same as the closing balance of 2008/2009 Financial year; with the addition of a new debtor (the Ministry of Regional Development Authority) at Kshs 1,233,356. A review of this new debtor revealed that it arose as a result of TARDA lending the Parent Ministry an amount of Kshs 1,623,356 to facilitate travel by the Minister and his Personal Assistant at the following rates:

Minister	Kshs	1,204,388
Personal Assistant	Kshs	<u>418,968</u>
	<b>Kshs</b>	<b><u>1,623,356</u></b>

According to a letter ref. *TARDA K/3 VOL.III/ (177)* dated 7<sup>th</sup> January 2010, TARDA acknowledged to the Permanent Secretary MORD of having lent the above monies on condition that reimbursement was to be effected as soon as the Ministry's Cheque clears from the Central Bank of Kenya.

However, as at the time of this audit (May 2010) only Kshs 400,000 had been reimbursed to TARDA thus leading to the creation of the debtor account covering the balance not reimbursed.

### **Risk**

The debtors account is not active, portraying Managements' laxity in collecting amounts due. The Ministry's debt has not been reimbursed for a long period of time (over four months), thus raising doubts as to its recoverability.

### **Recommendation**

Stringent debt recovery measures should be instituted to ensure recovery of the monies due to TARDA.

## **8.0 IMPRESTS ACCOUNT**

### *Criteria*

*Treasury Circular No. 3/2010 of 7<sup>th</sup> May 2010* refers. This circular supplements the Government's Financial Management Act 2004 as well as guidelines issued by Treasury from time to time as regards administration and enforcement of Financial Controls over imprests by Accounting Officers.

### ***Observation***

It was observed that various staff members held un-surrendered imprests amounting to Kshs 32,588,458.45 as at May 2010 made up as follows:-

ESP Account	Kshs 17,129,662.00
Headquarters Account	Kshs 14,822,936.45
KKV Account (Athi Region)	Kshs 635,860.00

**Kshs 32,588,458.45 (Appendix 1)**

This is contrary to the above quoted circular which provides for among others, surrender of temporary imprests within 48 hours of officers return to the work station and non issuance of not more than one imprest to an officer.

It was also noted that some imprests had remained outstanding for more than one Financial year, whereas some staff members had un-surrendered imprests running into over Kshs 500,000 ( **see appendix 1**) an indicator that officers were being given more than one imprest or issued imprests before surrendering any outstanding amounts.

### **Risk**

There is a major lapse in management of the imprests system in TARDA thus leading to failure to account for imprests on time.

This system is open to abuse and issues of fraud and financial misappropriations cannot be ruled out as weak controls are evident.

### **Recommendation**

TARDA Management should ensure compliance with *Treasury Circular No. 3/2010* as well as *Government Financial Management Act 2004* and in particular, note that it is the personal responsibility of an Accounting Officer to put into place adequate control measures in order to ensure compliance with regulations and procedures in force.

Further, stringent measures should be instituted to ensure that the outstanding imprests are either fully surrendered soonest possible or recovery measures instituted against the officers concerned.

## 9.0 HUMAN RESOURCES

### 9.1 Casual employees engaged at MD's and DMD's residences.

#### *Observation*

The following casuals are engaged at the MD's and DMD's residences and earn monthly wages as follows:-

Name	Monthly Wages (Kshs)	
Rael Kavila Wambua	8,850	} MD's residence Kshs 35,400
Charity Karimi Ireri	8,850	
Joseph Munyao Kitheka	8,850	
Nahashon Maina Ng'ang'a	8,850	
Dana Wairimu	8,850	} DMD's residence Kshs 26,550
David Kimanthi Kinyua	8,850	
Joseph Kyalo Kiilu	8,850	

The following issues were noted:-

- The wages for the above casuals were being collected and signed for by the MD and DMD respectively.
- The terms of engagement for the above officers were not made available thus it was not ascertained as to whether the above benefits are due to them.
- It was not possible to ascertain the genuinity of the casuals as their wages were being collected on their behalf.
- The officers were not taxed on domestic workers benefits provided by the employer as per the Income Tax Act.

#### **Risk**

The authenticity of the above casual payments could not be vouched in the absence of the missing information.

#### **Recommendation**

Documents in support of the above expenditure should be availed for audit verification. The casuals should collect their wages personally and sign for it appropriately.

### 9.2 Salary Advances

### *Criteria*

Section 8.2.1 of TARDA's terms and conditions of service refers.

### ***Observation***

During the period under review, it was established that TARDA had granted salary advances to its employees to the tune of Kshs 5,163,541.23. **(Appendix 2)**

The recovery period of these advances was in most instances running into several calendar months.

Below is a sample of the above mentioned scenario as at 31<sup>st</sup> March 2010:-

<b>Name</b>	<b>Total Advanced Amt (Kshs)</b>	<b>Recovery Per Month</b>	<b>Period of Recovery (Amt Kshs)</b>
Hezekiel Macharia	66,000	2,000	33 Months
Githaiga Steven R.	753,444	20,000	38 Months
Kibe Teresia	87,499	4,167	21 Months
James Tarus	39,575	2,085	19 Months
Damaris Kiarie	238,000	5,000	48 Months
Daniel Munyao	161,200	2,000	81 Months
Philip Mutuku	110,869	2,500	45 Months
Ogara Yabesh	60,848.05	500	122 Months
John W. Maina	74,100	2,030	37 Months
David Kimenyo	116,000	3,000	39 Months

Further, it was noted that in some instances staff members were earning salaries that were less than 1/3 of their basic salaries contrary to Public service circular which states that employees' net salaries should not below 1/3 of their basic salaries .

### **Risk**

The recovery criteria used to recover the advances is against Tarda's terms and conditions of service.

### **Recommendation**

Compliance to terms and conditions of service as regards payment and recovery of salary advances should be strictly adhered to.

#### **10.0 CONCLUSION**

I take this opportunity to thank you and your staff for the co-operation extended to the audit team during the audit exercise. Please respond to the issues raised as soon as possible and in any case not later than 27<sup>th</sup> August, 2010.

Yours faithfully,

**P. C. Kibe**

**For:-CONTROLLER AND AUDITOR GENERAL.**