



Audit Brief

Analysis of the Special Audit Report on Utilization of Covid-19 Funds by County Governments

Introduction

The request for the Auditor General to undertake a special audit on utilization of funds allocated to Covid-19 by the 47 county governments originated from the Senate Ad-hoc Committee on the Covid-19 situation¹. The objective of the Special Audit was to confirm whether public funds utilized by county governments for the procurement of medical supplies for Covid-19 purposes were used lawfully and effectively. The Senate wanted to confirm the total amounts of funds received, whether funds were banked and spent according to approved work plans, procurement plans and training plans, whether reliable financial and non-financial reports were produced every month and the instances and patterns of wastes and inefficiencies that if corrected would permit more economical use of available budget resources. The Senate also wanted the Office of the Auditor General to detect any irregularities involving misuse of public funds and related weaknesses in management controls amongst other issues².

The request for a special audit report to the Auditor General arose from the Senate following intense media reporting on misuse of Covid-19 funds at the counties, petitions by individual senators, and public outcry. This review is clustered into 33 five major areas which include a summary of audit findings, breakdown of funds received by county governments for covid-19 mitigation, audit queries, key messages from the Special Audit Report and case study highlights of Utilization of Covid-19 Funds by a few selected county governments.

¹Letter Reference SEN./12/4/AC/COVID-19/2020

²Appendix I: Terms of References Issued by the Senate on Page 646 of Special Audit Report of the Auditor-General on Utilization of Covid-19 Funds by County Governments

A. Summary of Audit Findings

1. Absence of approved work plans, procurement plans, and training plans specific to Covid-19 activities

- 36 counties lacked either work plans, training plans or procurement plans contrary to the law.

Section 107(2) of the County Governments Act 2012 requires that County Plans must be the basis for all budgeting and spending in the county governments. Section 53(2)(5) of the Public Procurement and the Asset Disposal Act, 2015 requires that procurement plans should be based on the indicative and approved budgets, and shall be integrated with the applicable budget process with approvals done by CECs responsible for the respective entity.

- 23 counties lacked approved budgets contrary to the law

Section 131 and 135(2) of the Public Finance Management Act, 2012 require that County Assemblies approve budget estimates and supplementary budget estimates for the county governments.

2. Delay in the utilization of funds exposing public funds to value for money risks and increased vulnerability of respective counties to Covid-19 risks

The county governments had not utilized the National Government grants for Covid-19 related activities exposing public funds to the value for money risks. The failure to utilize public funds allocated implies an absence of proper planning and inadequate preparation by counties to respond to the Covid-19 risks.

- 30 counties have not utilized GoK conditional grants
- No county had utilized funds allocated for Frontline Health workers allowances

3. Underfunding of the frontline health workers' allowances implying inadequate planning and budgeting

The salaries and Remuneration Commission (SRC) advised for payment of Covid-19 medical emergency allowances for the frontline health workers to be done for a period of three months with effect from April 01, 2020, and the National Government disbursed Ksh 2.36 billion consequently³. It was established that amounts sent were not adequate which implied poor planning and budgeting which could lead to risks of labour unrest among health workers. The special audit reports also note that some health workers were being paid through the Manual payroll instead of the automated payroll system.

³SRC Advisory dated 28, April 2020 and referenced SRC/TS/COG/3/61/48

4. Non-Adherence to Public Procurement and Asset Disposal Act 2015

- There was no evidence that County Governments conducted market surveys to inform placement of orders.
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- Absence of approved procurement plans and training plans to ensure linkage between planning and budgeting
- Absence of systems and procedures to guide emergency procurement during the Covid-19 pandemic in county governments.
- Procurement of Covid-19 items from non-Prequalified bidders in 4 counties without justification contrary to section 106(2)a.
- Procurement of goods without valid contracts

5. Inefficient Inventory Management Systems

It was established that there was inadequate record-keeping at county stores characterized by the failure of county governments to record actual stock at hand, what has been procured and what was donated. The Special Audit Report of the Auditor-General on Utilization of Covid-19 Funds by County Governments notes on page 30 that there is a possibility that ledger cards were prepared for purposes of the audit and did not reflect a true and fair view of stock management levels of the county governments.

6. Discrepancies between Dispatch Records at KEMSA and receipt records at County Governments on Donations

A review of records of receipts by some county governments together with the dispatch records at KEMSA established the inconsistencies between quantities supplied and quantities received respectively.

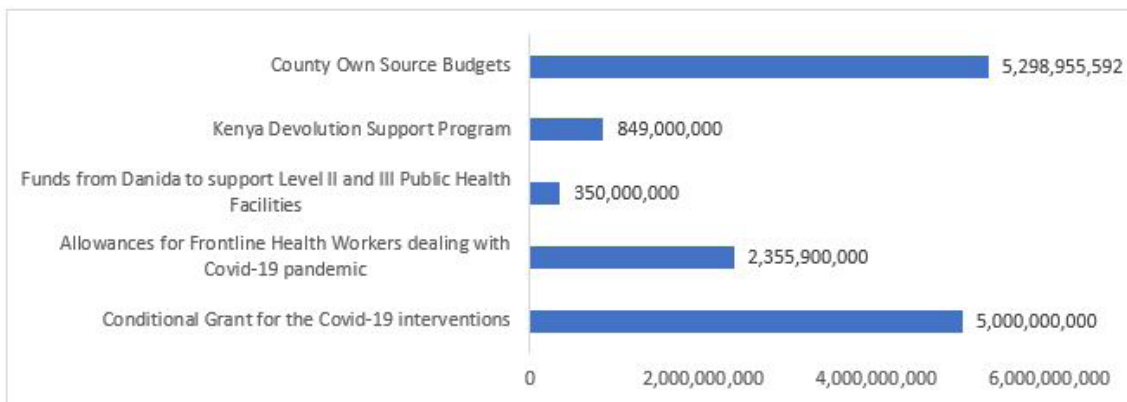
7. Failure to include estimates of non-cash donations in the Budget contrary to Public Finance Management Regulations

The Audit Report establishes that there is no evidence that County Governments estimated the value of donations received from all donors and reflect them in budget statements which would then be reported in the financial statements as required by section 74(4) of the public finance Management Act (County Government) Regulations 2015. The regulations provide for accountability steps that should be taken where grants and donations are received in kind.

B. Funds Received by County Governments for Covid-19 mitigation

The National Government disbursed funds from Conditional grants for Covid-19 interventions amounting to Ksh 5 billion, allowances for frontline health workers dealing with the Covid-19 pandemic amounting to Ksh 2.36 billion, and funds from Danida to support level II and III public health facilities amounting to Ksh 350 million. The counties dedicated their own source revenues amounting to Ksh 5.3 billion. The counties also received Ksh 849 million from the Kenya Devolution Support Program. In total, the County Governments received a total of Ksh 13.85 billion.

Chart 1: Breakdown of Covid-19 Funds received by County Governments (Ksh)



Source: Special Audit Report of the Auditor-General on Utilization of Covid-19 Funds by County Governments

C. Audit Queries

1. Audit Queries Observed Across All 47 county Governments

a) Procurements are done without Market Survey⁴

The special audit report notes that all the 47 counties undertook procurements without a market survey contrary to the Public Procurement and Asset Disposal Act, 2015. A market survey is useful in the identification of price trends which forms a key part in the preparation of budgets, choosing procurement methods, planning and scheduling of procurement of goods, services and works⁵.

b) Failure to Include the estimates of Non-Cash Donations in the Budget⁶

As identified in the special audit report, all county governments failed to include the estimates of non-Cash donations in the budget contrary to section 74(4) of the Public Finance Management Act (County Government) Regulations of 2015. The consequence of this led to violation of the public finance management laws and inaccurate financial reporting.

⁴Page 37 of Special Audit Report of the Auditor-General on Utilization of Covid-19 Funds by County Governments

⁵Jorge Lynch, "Market Study in Public Procurement," The Procurement Classroom, August 15, 2011, <https://procurementclassroom.com/market-study-in-public-procurement/>.

⁶Page 38 of Special Audit Report of the Auditor-General on Utilization of Covid-19 Funds by County Governments

2. Summary of other Significant Audit Queries across the 47 Counties⁷

Table 1: Summary of Audit Queries and Risks

Queries/Weaknesses	Risks and Law Violated	Share of Counties with Queries
Procurement of goods without valid contracts	Violation of Public Procurement and Asset Disposal Act, 2015	9%
Absence of approved work plans, procurement plans, and training planning's specific to Covid-19 activities	Ineffective fiscal response to the Covid-19 risks that may result in value for money risks	77%
Absence of approved budgets for Covid-19 activities	Inefficient and ineffective utilization of public funds	49%
Delay in the utilization of the GoK conditional grants	Value for money risks and ineffective response to Covid-19 related risks	64%
Inefficient inventory management issues	Value for money risks, and also leading to an ineffective response to Covid-19 related risks	28%
Misappropriation of KDSP funds	Loss of Public Funds	4%
Absence of Competitive Bidding in Procurement Process	Value for money risks, and violation of the Public Procurement and Asset Disposal Act, 2015	26%
Absence of Approved Procurement Plans	Non-Compliance with Public Procurement and Asset Disposal Act, 2015	70%
Procurement was done from Non-Prequalified Bidders	Non-Compliance with Public Procurement and Asset Disposal Act, 2015	9%
Delay the in utilization of Danida funds	Value for money risks, and also leading to an ineffective response to Covid-19 related risks	94%
Delay in Utilization of KSDP Funds Value for money risks and increasing vulnerabilities of respective counties to Covid-19 related risks 49%	Value for money risks and increasing vulnerabilities of respective counties to Covid-19 related risks	49%

Source: Special Audit Report of the Auditor-General on Utilization of Covid-19 Funds by County Governments

D) Key Messages

- The Most pervasive audit queries include:
 - (i) Absence of approved work plans, procurement plans
 - (ii) Delay in utilization of grants and other funds
 - (iii) Absence of Approved Procurement Plans
 - (iv) Absence of approved budgets for Covid-19 activities,
 - (v) Absence of Competitive Bidding in Procurement Process
 - (vi) Inefficient inventory management issues.

⁷Page 34-39 of Special Audit Report of the Auditor-General on Utilization of Covid-19 Funds by County Governments

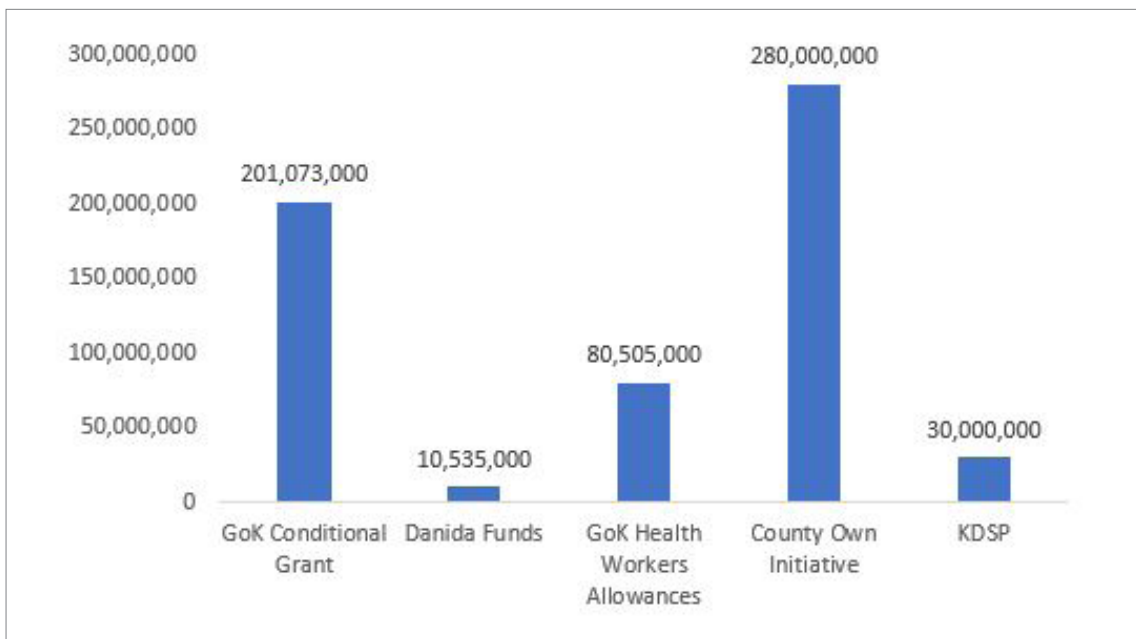
- The largest share of audit queries raised in the Special Audit Report of the Auditor-General on Utilization of Covid-19 Funds by County Governments arise from the failure to have a specific approved budget for Covid-19 related activities. The failure to have a specific approved budget for Covid-19 gave rise to other issues like lack of approved procurement plans
- County legislatures should adopt mechanisms for scrutinizing and approving emergency expenditure items.
- Automation of the Stock Management Systems

E. County Case Studies

1. Nakuru

The County Government of Nakuru was allocated Ksh 600.11 million out of which Ksh 201.07 million was from the GoK Conditional grant, Ksh 10.54 million from Danida funds, Ksh 80.51 million from GoK workers allowances, Ksh 280 million from County own initiatives and Ksh 30 million from Kenya Devolution support program.

Chart 2: Amount of Funds received for Covid-19 in Nakuru County (Ksh)



Source: Special Audit Report of the Auditor-General on Utilization of Covid-19 Funds by County Governments (Page 438)

a. Planning

The County Government of Nakuru provided a general Covid-19 preparedness plan from the Department of Health which had been prepared in February 2020 by the Chief Officer for Public Health submitted to the Health Department Disease Surveillance and Epidemic Response Ministry

of Health. The plan detailed leadership, Coordination, Disease Surveillance and Laboratory, Case Management and Training Activities and the implementation of these activities indicated to cost Ksh 64, 871,630 million.

b. Audit Queries

- Absence of work plans, procurement plans and training plans for conditional grants, Danida and KSDP funds received from National Government.
- Delay in utilization of the Conditional Grant, Danida, and KDSP funds amounting to Ksh 241,608,000
- Failure to open Special Purpose Account for the Covid-19 grant with 15 days
- Analysis of IPPD and Payroll data revealed that workers had been paid of Ksh 83,418,833 in different months July, August and September which is Ksh 2,913,833 above the allocated budget for frontline health workers allowances.
- The county reported to have paid Ksh 83,283,833 to 1976 workers which did not include Ksh 135,000 for the 7 workers. Omission of payment of Ksh 135,000 for 7 workers⁸.
- As of the time of audit, the county was yet to pay 315 contracted health workers whose wage totalled to Ksh 13,680,000. They include 212 registered nurses, 30 registered clinical officers, 2 public health officers, 25 pharmaceutical technicians, 17 medical lab technicians, 5 health record officers, 17 enrolled nurses and 1 driver, 5 bachelor of science nurse, and 1 assistant public health officer⁹.
- Overpayment of Ksh 292,500 to Lake Nakuru resort
- Inadequate support of payment vouchers for Ksh 312,385,235. The payment vouchers did not have adequate support documents linking them to their tendering process. The requisition forms, extracts of tender reports/minutes, contracts and distribution reports were not attached to payment
- Failure to value donations in kind and disclose the value in appropriate books of account. These donations included hand sanitizers, KN95 masks, ventilator, face shield, gowns and other materials.

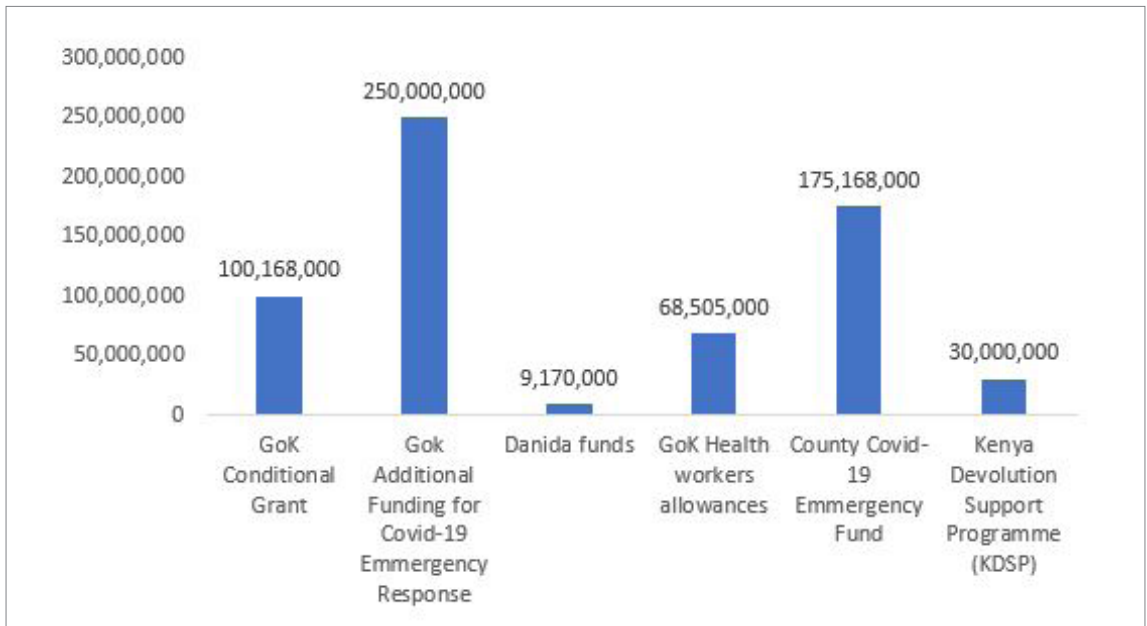
2. Mombasa

The total allocations received by county government of Mombasa totalled Ksh 633,011,000 out of which Ksh 100,168,000 was a conditional grant, Ksh 250,000,000 came from GoK additional funding for Covid-19 Emergency response, Ksh 9,170,000 from Danida, Ksh 68,505,000 from GoK Health workers allowances, Ksh 175,168,000 from Covid-19 Emergency Fund, and Ksh 30,000,000 from Kenya Devolution Support Programme(KDSP).

⁸County's Chief Officer of Public Health report to Ministry of Health (Letter Referenced NCG/DOHS/HR/10/20)

⁹Table 249 on Page 444 of Special Audit Report of the Auditor-General on Utilization of Covid-19 Funds by County Governments

Chart 3: Amount of Funds received for Covid-19 in Mombasa County (Ksh)



Source: Special Audit Report of the Auditor-General on Utilization of Covid-19 Funds by County Governments (page 414)

a. Planning

The County Government of Mombasa put in place a workplan, procurement plan and an approved budget for the County Emergency Fund from its own source and Conditional grant from Ministry of Health.

b. Audit Queries

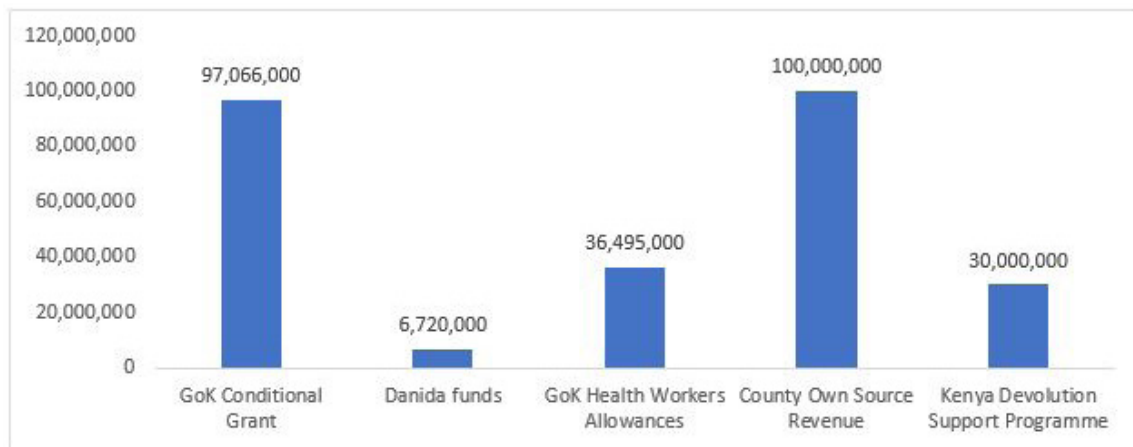
- Absence of approved budgets for KDSP and GoK Health workers allowances, procurement plans for the KDSP funds, work plan for Danida funds and training plans for KDSP and County Emergency Fund specific fund specific to Covid-19. The management explained that absence of the approved budgets, training and procurement plans was due to fact that funds were received towards the end of the financial year.
- Un-utilized GoK conditional grant and KDSP funds- Ksh 380,168,000
- Underfunding of frontline health workers allowances by the National Government- Ksh 2,055,000
- Queries related to payroll
 - Duplicate payments- Ksh 60,000
 - Payment of medical allowances to non-medical staff- Ksh 3,195,000
 - Double payments to frontline health workers- Ksh 135,000
- Queries related to Procurement
 - Awarding tenders to ineligible bidders
 - Failure to notify bidders of the bidding process outcome
 - Failure to appoint tender opening and evaluation committee

- Failure to withhold VAT¹⁰
- Failure to inspect purchased goods- Ksh 450,000
- Payment of undelivered goods- Ksh 49,020
- Failure to issue a professional opinion for the supply and delivery of Covid-19 supplies that was awarded at a cost of Ksh 382,290¹¹.
- Failure to record goods received- Ksh 244,000
- Failure to determine the value of donations and include them in the estimates for financial year 2019/2020.

3. Siaya

The total allocations to county government of Siaya received amounted to Ksh 270,281,000. Out of this Ksh 97,066,000 was from the GoK Conditional grant, Ksh 6,720,000 was from Danida, Ksh 36,495,000 was from GoK Health workers allowances, Ksh 100,000,000 from County own source revenue, and Ksh 30,000,000 from the Kenya Devolution Support Programme.

Chart 4: Amount of Funds received for Covid-19 in Siaya County (Ksh)



Source: Special Audit Report of the Auditor-General on Utilization of Covid-19 Funds by County Governments

a. Planning

The county government of Siaya had put in place an approved budget, procurement plan and a workplan for the Covid-19 county emergency fund financed from its own source revenue, utilization of the health care allowances, conditional grants received from the National Government, Danida and the Kenya Devolution Support Project(KDSP).

¹⁰This is a requirement of the Tax Procedures Act Section 42A (1)

¹¹Tender Number- CGM/QTN/H/68/2019-2020

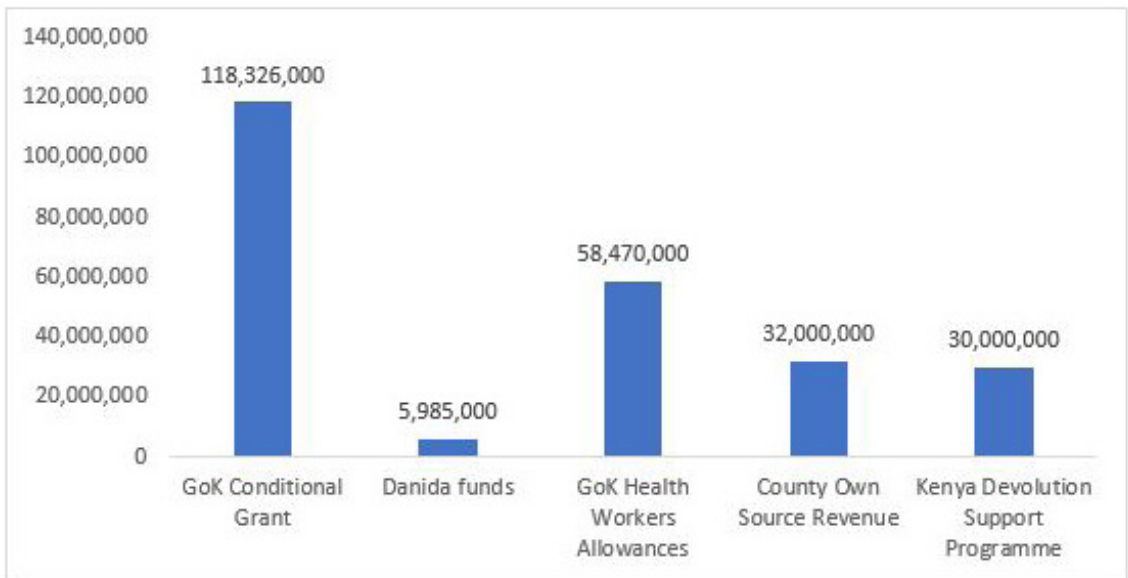
b. Audit Queries

- There was no evidence of existing training plans for the Covid-19 County Emergency fund financed from its own source, conditional grants received from National Government, and the Kenya Devolution Support Project (KDSP)
- Un-utilized GoK conditional grants and KDSP funds exposing public funds to value for money risks- Ksh 127,066,000
- Un-utilized frontline healthcare workers allowances-Ks 1,695,000
- Over expenditure of Covid-19 funds from the County Emergency Fund
- Delay to transfer Danida funds from the CRF account to Siaya County UHC Project fund exposing public funds to value for money risks- Ksh 6,720,000
- The county government accumulated pending bills amounting to Ksh 16,033,333

4. Nandi

Nandi received a total of Ksh 244,781,000; out of which Ksh 118,326,000 was received from the National Government for GoK conditional grant, Ksh 5,985,000 from Danida, Ksh 58,470,000 from National Government from GoK Health workers’ allowances, Ksh 32,000,000 for the County own funds, and Ksh 30,000,000 from the Kenya Devolution support program.

Chart 4: Amount of Funds received for Covid-19 in Nandi County (Ksh)



Source: Special Audit Report of the Auditor-General on Utilization of Covid-19 Funds by County Governments (Page 452)

a. Planning

The county government of Nandi prepared a workplan and used a conditional procurement plan for the conditional grants.

b. Audit Queries

- Irregularities under conditional grants
 - Over expenditure on items; full PPEs and surgical masks- by Ksh 6,476,000
 - Procuring items not included in the procurement plan- Ksh 1,393,000
- Commingling of Covid-19 funds with normal health department operations because they used same cashbook hence it was not possible to separate Covid-19 and non Covid-19 expenditure.
- Underfunding of budget for frontline healthcare workers allowances- Ksh 4,140,000
- Absence of workplans, procurement plans and training plans resulting in failure to utilize KDSP funds- Ksh 30,000,000
- Failure to value donations from KEMSA and other donors and include them in estimates of expenditure in the financial year.
- The county government of Nandi incurred pending bills amounting to Ksh 33,667,600 on conditional grants and Ksh 62,378,062 on County Emergency funds.
- Inconsistencies between the quantities of donations supplied by KEMSA and quantities received by the County Government of Nandi.

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Constitution, Law & the Economy Programme

5th Floor, ACK Garden House

P.O. Box 53989 - 00200

Nairobi, Kenya.

Tel: +254-20-2721262, +254-20-2717402

Fax: +254-20-2716231

Email: admin@ieakenya.or.ke

Website: www.ieakenya.or.ke

Written by:

Jackline Kagume

Leo Kipkogei Kemboi

Board of Directors:

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