

KENYA'S DROUGHT CASH COW

A SHORT GUIDE



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**Lessons from the Forensic Audit
of The World Bank Arid Lands
Resource Management Project**

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The Facts

- A 17 year project in Kenya's arid and semi-arid lands
- Over US\$220 million funding from the World Bank
- 62% of transactions audited during 2007-08 suspected fraudulent or questionable
- At least 45% of audited, ineligible funds (Ksh 341 million) has been paid back.

In Short

The Arid Lands Resource Management Project (ALRMP) was an extension of a World Bank funded project – the Emergency Drought Recovery Project (EDRP 1993-96) – that began in 1993. The original project, designed to address the development imbalances between Kenya's high and low potential areas, was in 4 arid districts only: Baringo, Mandera, Turkana and Wajir. By the end of ALRMP II, in December 2010, it covered 28 arid and semi-arid land (ASAL) districts.

Between 1993 and 2010 the World Bank had funded the projects to the tune of over US\$220 million. Before the results of a World Bank audit were revealed in July 2010, a third phase was planned using another US\$145 million in World Bank and donor funds. However, the funds were frozen in July 2010 after an audit of the accounts for the years 2006 to 2008 disclosed **at least** 341 million shillings' worth of suspected fraudulent and questionable spending. The project was closed in December of the same year.

The Project

The apparent success of the EDRP led to the first phase of the ALRMP in July 1996, when 5 more arid districts were included in the funding: Garissa, Isiolo, Marsabit, Samburu and Tana River.

In May 2003, ALRMP II began, and this time 11 semi-arid districts were added to the project: Kajiado, Kitui, Laikipia, Makueni, Mbeere, Mwingi, Narok, Nyeri, West Pokot, Tharaka and Trans Mara. At the same time, Moyale and Ijara (previously included in Marsabit and Garissa) became independent districts.

In July 2006 extra funding was supplied for 6 additional semi-arid districts to join the project: Kilifi, Kwale, Lamu, Malindi, Meru North and Taita Taveta.

How the ALRMP worked

The ALRMP had 3 parts:

- Natural Resources and Drought Management (NRM)
 - strengthened conflict management between groups competing over resources, strengthened drought early warning systems and sought to make drought management an integral part of government systems.
- Community Driven Development (CDD) (for the 11 arid districts only) - aimed to empower and involve the community in their own development and was the project's largest component.
- Support to Local Development (SLD) - meant to encourage sustainable economic activities.

The ALRMP II was a community driven model that relied heavily on decentralising responsibility, authority and finance to district and community levels. ALMRP staff liaised with community development committees (CDCs), elected by the community, and helped to plan and prioritise projects. The DMO, who was the district head of arid lands, then forwarded the proposals to a district steering group (DSG) for approval. Funding not only covered proposed projects but also extensive training for all relevant participants. Because the DMO and the community development project officer (CDPO) acted as intermediaries between the communities and the DSG, they became powerful individuals in the project process, able to influence outcomes to the advantage, or disadvantage, of any community.

The Audit Process

Following years of rumours about funds mismanagement, INT, the integrity branch of the World Bank, finally undertook a large-scale, detailed audit of the project in 2009, 16 years after it began. Due to resource constraints, INT chose to audit only 7 of the 28 districts (as a sample) plus the Nairobi office, over the financial period 2006-2008. Though small, considering the number of districts and the time frame involved, the audit nevertheless covered 28,000 transactions. To ensure an element of knowledge on Government of Kenya (GoK) regulations and policies, INT included in their team a number of experienced Kenyan chartered accountants, together with the local World Bank financial management specialist.

The INT team primarily looked for the following:

- Suspected fraudulent expenditure, often identified by inconsistent documentation, or documents and information obtained through third parties.
- Questionable transactions, which might include fraudulent spending, but could also include payments made without the correct back-up documents, and payments that breached government regulations or that did not meet the World Bank's credit agreement standards.

The INT team's thorough and objective investigations included making field visits to suppliers and community projects, cross referencing bank statements, cheques, payment vouchers and cashbooks, comparing VAT payments to the KRA with receipts, and even crosschecking the handwriting on winning and losing quotations.

The Findings

The audit findings were eye opening: 62% of transactions for the financial year 2007/08 in the 7 districts together with the Nairobi office (worth over Ksh 500 million) were found to be fraudulent and questionable. (This does not include payroll, the single biggest expense, which the team could not fully audit, partly due to poor cooperation from staff.) The table below shows the breakdown per district of suspected fraudulent and questionable expenditure for 2007/08 only. INT says that the irregularities were systemic across all 7 districts and the Nairobi office, implying that other districts might, if audited, show similar results.

TABLE 2. INT suspected fraudulent and questionable ALRMP expenditures financial year 2007-08 (in Ksh.)

District	ALRMP Budget (World Bank and GoK) FY 2007-2008	Suspected Fraudulent & Questionable Expenditures (World Bank and GoK) FY2007-2008	Percent Suspected Fraudulent and Questionable FY2007-2008
Garissa	123,694,000	76,782,000	62%
Isiolo	118,517,000	88,013,000	74%
Kajiado	43,320,000	25,964,000	60%
Nyeri	34,371,000	24,154,000	70%
Samburu	102,862,000	69,623,000	68%
Tana River	84,736,000	37,533,000	44%
Wajir	158,854,000	119,373,000	75%
District sub-total without HQ	666,354,000	441,442,000	66%
Headquarters	162,023,000	70,181,000	43%
Total with HQ	828,377,000	511,623,000 [†]	62%

Source: "Forensic Audit Report: Arid Lands Resource Management Project - Phase II, Redacted Report," (July 2011), World Bank Integrity Vice-Presidency (INT); Table 3, page 23.

†: GoK funds made up Ksh. 75,730,000 of the total suspected fraudulent and questionable funds; the rest were World Bank funds.

If 62% questionable expenditures over the two years sampled is typical of the project as a whole, how much money was lost through fraudulent and questionable activities over the 17 years that the project existed? Just as worrying is the fact that the project was audited every year by the GoK and reviewed periodically by the auditor general's office; yet nothing of this scale was ever revealed. Some of the findings are shown below.

Examples of suspected fraud:

- Use of pro-forma invoice vendor quotations instead of receipts
- Collusion between ALRMP staff and suppliers to influence procurement processes
- Falsification of documents for goods and services procured
- Payment for goods before receipt
- Single source tenders were used when 3 quotations were required
- Fuel used for personal vehicles or purchased for other government departments
- Altered or missing documents needed to support fuel use

- Vehicle tyres bought without supporting documents
- Alleged kickbacks to DMOs
- Excess imprests advanced and not remitted
- Fraudulent bank charges
- Suspicious cash withdrawals.

Examples of the systemic problems that were identified, including sloppy and unprofessional financial management:

- There was no uniform system across all the districts to match vouchers with expenditure. While some filed receipts chronologically, others filed by product category, while others still filed according to department. In addition, vouchers submitted did not match expenditure claimed, several districts could not produce cashbooks, and the project itself did not hold an accurate and complete record of fixed assets. Thus, assets could be sold without accountability.
- The financial management reports submitted to the World Bank did not match the fund flow patterns indicated in bank statements, the former showing stable expenditure across all quarters, while the latter indicated that over 50% of funds were spent in the last quarter. Bank balances were often reported inaccurately and there were irregularities in the dates that cheques were cashed, often long after the date on the cheque itself. Some cheques, while showing in bank statements, were not recorded in cashbooks, and could not be produced for the auditors.
- There were VAT discrepancies between what ALMRP staff withheld to pay VAT and the amount received by the KRA. In addition, some districts recorded VAT payments that were never received by the KRA.

- The ALMRP ‘double dipped’ in that it received funds from other donors that were already covered by the World Bank and claimed for the same activity from two separate donors.

There was also evidence of possible collusion between Kenya Commercial Bank (KCB) employees, project staff and government employees. In fact the audit was impeded by the non-cooperation of some KCB staff. For example, nine months after the original request, certain banks had not produced cleared cheques, and of those that were produced, some had been altered to affect either the payee or the date. In addition, many KCB bank statements did not match those supplied earlier by project staff. Some were altered while others had cash transactions deleted. Because both the district accountant (from the district treasury) and the DMO’s signatures were mandatory on all cheques, the above cheque irregularities call into question either their aptitude or their integrity.

At the end of the audit, suspected fraudulent and questionable expenditures for only 7 of 28 districts and over a two-year period only amounted to Ksh 511 million.

The Government’s Response

The initial response was to direct the GoK Internal Audit Department (IAD) to go over all INT flagged transactions (and no more than that). By doing so, the fraudulent and questionable expenditures were supposedly reduced from Ksh 511 million to Ksh 159 million. However, after a joint review and reconciling the INT report and the IAD report, the final amount agreed as ineligible expenditures from the 7 districts and headquarters was Ksh 341 million. The reduction from Ksh 511 million was due to the fact that Ksh 76 million came from GoK, while other amounts were clarified based on the production of new documents. World Bank rules state that all ‘ineligible’ expenditures must be refunded to the World Bank – in this case, Ksh 341 million.

On 23 June 2011 Permanent Secretary in the Ministry of Finance, Joseph Kinyua wrote a response to the audit. His main points, and INT's response to his points, were:

- That the INT report was incomplete. INT disagreed, asserting that it was complete and insisting on a proper response from project officials.
- That INT had not shared its information. INT asserted that they had shared information about all the 3,257 questionable transactions with the government.
- That INT did not understand GoK regulations/policies. INT responded that they had included Kenya based chartered accountants in their team as well as their local financial specialist.
- That INT did not discuss its findings with the GoK before reaching its conclusions. INT explained that they were satisfied with the evidence; ALRMP project staff had been spoken to and DMOs had been given a chance to provide explanations for all questionable transactions.
- That INT should not publicise the report until the joint GoK/INT team had conveyed its findings to the government. INT published its report on 15 July 2011.

On 6 March 2012 a question was asked in Parliament about the missing ALRMP funds. The Minister of Development for Northern Kenya and Other Arid Lands, Mohamed Elmi said that he was “not aware of any money that had been misappropriated” by ALRMP, that there was no “concrete evidence that funds have been misappropriated” and that “no funding has been stopped as a result of this particular audit”.¹

¹Hansard, National Assembly, Tuesday 6 March 2012, Question No. 1155, Page 13.

There was little other discussion in Parliament about the project and since MPs lacked information on the ALRMP, Minister Elmi's response could not be effectively challenged.

AfriCOG Says

The government's response would have been more satisfactory if it had addressed the reasons for the questionable transactions, including those responsible, rather than denying that most of them existed.

Similarly, the minister's spirited defence of the project's achievements does not make up for the fact that the funding was suspended and the project prematurely closed after the audit. The World Bank's website² rates the progress towards achieving the project objectives as “moderately unsatisfactory” (3 out of 6), towards achieving global environment objectives as “unsatisfactory” (2 out of 6) and overall implementation progress again as “unsatisfactory”. NB. 80% of World Bank projects receive a 5 to 6 rating.

As for the assertion that no funding has been stopped as a result, two successor projects, KACCAL and Arid and Semi-Arid Lands Sector-Wide Program (equivalent to ALRMP III), worth over US\$150 million (between the World Bank and other donors), have been cancelled.

² World Bank Implementation and Results Report No. ISR1996 for Arid Lands Resource Management Project Phase II (P078058)

AfriCOG Recommends

- That the EACC investigate the INT report and the joint INT/IAD report.
 - That suspected collusion between bank, project and government staff be investigated by a parliamentary committee.
 - That INT and IAD audit the remaining 21 districts as per their promise.
 - That those implicated in fraudulent activities be subject to the full force of the law.
 - That senior project staff of ALRMP II be evaluated on their leadership and administrative abilities (some still hold public office).
 - That donor/government development projects be transparent about spending, procurement, tenders and recruitment through an accessible website.
- That the accounting abilities of public servants be professionalised, including training, audits and oversight, especially in light of the devolved county system of government.
 - That high level civil servants declare their assets to the public.
 - That donor-funded GoK projects maintain a public complaints procedure that is also made available to donors and the EACC or Parliament.
 - That the vetting of important national offices be upgraded, especially considering that senior ALRMP officers were appointed to important national offices after, and despite, the audit findings.

Abbreviations and Acronyms

ALRMP	Arid Lands Resource Management Project
ASAL	Arid and Semi-Arid Lands
CDC	Community Development Committee
CDPO	Community Development Project Officer
DMO	Drought Management Officer
DSG	District Steering Group
EACC	Ethics and Anti-Corruption Commission
EDRP	Emergency Drought Recovery Project
GoK	Government of Kenya
IAD	Internal Audit Department
INT	Integrity Vice-Presidency of the World Bank
KACCAL	Kenya: Adaptation to Climate Change in Arid and Semi-Arid Lands
KCB	Kenya Commercial Bank
KRA	Kenya Revenue Authority
Ksh	Kenya Shilling
US\$	United States Dollar
VAT	Value Added Tax

Acknowledgment

AfriCOG thanks team members Charles Wanguhu, Maureen Kariuki, Beatrice Odallo, Seema Shah, Anyona Obutu, Carole Theuri, Stephanie Wairimu, Kadenge Kidiga, Noreen Wahome and Maureen Gachomo for their commitment to our work.

AfriCOG also thanks Jean Ensminger, Otsieno Namwaya and Hilary Atkins for their contribution to this publication.

The production of this publication has been made possible by the support of the Embassy of Finland in Nairobi and the Drivers of Accountability Programme, a program of the Government of the United Kingdom's Department for International Development (DFID), DANIDA and CIDA.

We are also grateful to the Open Society Initiative for East Africa (OSIEA) for their support to our work.

The views expressed in this report are those of AfriCOG alone.

December 2012



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