

# **KENYA'S DROUGHT CASH COW**

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







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## LIST OF ACRONYMS AND ABBREVIATIONS

<b>AIE</b>	Authority to Incur Expenditure
<b>ALRMP</b>	Arid Lands Resource Management Project (Phase I), World Bank
<b>ALRMP II</b>	Arid Lands Resource Management Project Phase II, World Bank
<b>ASALs</b>	Arid and Semi-Arid Lands
<b>CDC</b>	Community Development Committees
<b>CDD</b>	Community Driven Development
<b>CDPO</b>	Community Development Project Officer
<b>CRA</b>	Commission for Revenue Allocation
<b>DCA</b>	Development Credit Agreement (World Bank)
<b>DMI</b>	Drought Management Initiative (EU)
<b>DMO</b>	Drought Management Officer
<b>DSG</b>	District Steering Group
<b>EACC</b>	Ethics and Anti-Corruption Commission
<b>EDRP</b>	Emergency Drought Recovery Project
<b>EU</b>	European Union
<b>FMRs</b>	Financial Management Reports
<b>FY</b>	Financial Year
<b>GoK</b>	Government of Kenya
<b>IAD</b>	Internal Audit Department, Kenya

<b>IDA</b>	International Development Association (World Bank funding for the poorest countries)
<b>IFMIS</b>	Integrated Financial Management Information System
<b>INT</b>	Integrity Vice-Presidency of the World Bank
<b>KACC</b>	Kenyan Anti-Corruption Commission
<b>KACCAL</b>	Kenya: Adaptation to Climate Change in Arid and Semi-Arid Lands
<b>KCB</b>	Kenya Commercial Bank
<b>Ksh</b>	Kenyan Shillings
<b>KESSP</b>	Kenya Education Sector Support Programme
<b>KRA</b>	Kenya Revenue Authority
<b>LATF</b>	Local Authority Transfer Fund
<b>NDMA</b>	National Drought Management Authority
<b>PS</b>	Permanent Secretary
<b>SFEs</b>	Suspected Fraudulent Expenditures (INT Report)
<b>SLD</b>	Support for Local Development
<b>UNDP</b>	United Nations Development Programme
<b>US\$</b>	United States Dollar
<b>VAT</b>	Value Added Tax



## TIMELINE

- **April 1993:** Emergency Drought Recovery Project (EDRP) funded, precursor to World Bank Arid Lands Resource Management Project; four arid districts funded (Baringo, Mandera, Turkana, Wajir).
- **July 1996:** Arid Lands Resource Management Project (ALRMP) funded; arid districts expanded to nine (Baringo, Garissa, Isiolo, Mandera, Marsabit, Samburu, Tana River, Turkana, Wajir).
- **May 2003:** Arid Lands Resource Management Project Phase II (ALRMP II) funded; 11 semi-arid districts added (Kajiado, Kitui, Laikipia, Makeni, Mbeere, Mwingi, Narok, Nyeri (Kieni East and West), West Pokot, Tharaka, Trans Mara); while Moyale (formerly part of Marsabit) and Ijara (formerly part of Garissa) become independent districts
- **July 2006:** ALRMP II supplemental funding; six semi-arid districts added (Kilifi, Kwale, Lamu, Malindi, Meru North, and Taita Taveta).
- **April 2009:** INT forensic audit commences.
- **June 2010:** World Bank Board approves funding for Kenya: Adaptation to Climate Change in Arid and Semi-Arid Lands (KACCAL) to be administered by ALRMP.
- **July 2010:** ALRMP II funds frozen by the World Bank based upon the preliminary findings of the INT audit.
- **November 2010:** World Bank board date for approval of **Arid and Semi-Arid Lands Sector-Wide Program** (was intended to be the successor project to ALRMP II and continue funding from December 2010); the project was never approved due to the ALRMP II audit.
- **December 30 2010:** ALRMP II project closes with no World Bank renewal.
- **December 30 2010:** Fatuma Abdikadir, National Project Coordinator for ALRMP II from mid-2004 until December 2010 (including the entire INT audit period), is appointed as Commissioner to the **Commission for Revenue Allocation (CRA)** and later elected Vice Chair of the Commission.
- **February - October 2011:** Abdirahman Abass, Head of Support to Local Development (SLD) for ALRMP II during the entire INT audit period and up to December 2010, takes over the running of the former ALRMP staff and offices.
- **April 2011:** INT submits draft of the audit report to the GoK.
- **July 2011:** INT forensic audit of ALRMP II published online.
- **August 2011:** In Parliament, Hon. Mohamed Sirat (MP Wajir South) asks the Minister of Development for Northern Kenya and other Arid Lands

(Mohamed Elmi) to answer a question regarding the Arid Lands audit.

- **August 31 2011:** INT refers the Arid Lands case to KACC for Ksh. 361 million in suspected fraudulent transactions.
- **November 8 2011:** Saadia Mohamed, Head of Community Driven Development (CDD) at Arid Lands for the entire INT audit period and up to December 2010, is appointed to the **Commission on Administrative Justice** by a panel chaired by former Special Programmes Permanent Secretary, Rachel Arunga, whose docket included oversight of the Arid Lands project during most of the audit period.
- **November 16 2011:** The **National Drought Management Authority (NDMA)** is established by President Kibaki; former Arid Lands staff and assets are inherited by NDMA.
- **November 18 2011:** Joint INT – IAD audit report on Arid Lands published online
  - Ksh. 340 million of Arid Lands’ funds are ruled ineligible, obligating the GoK to refund the money to the World Bank. The GoK did later refund US\$ 4 million to the World Bank.
  - The report promises collaboration between IAD and INT for implementation of an extended audit of the remaining 21 ALRMP districts that were not part of the original audit.
- **March 2012:** In **Parliament**, Minister Mohamed Elmi responds to questions raised by Hon. Mohamed Sirat (Wajir South) regarding misappropriation of funds in ALRMP II.

# 1. OVERVIEW

The World Bank-funded Arid Lands Resource Management Project (ALRMP) was set up to help mitigate the effects of drought and poverty in arid and semi-arid areas. The project was funded continuously from 1996 until July 2010, when funding was frozen pending the outcome of a World Bank initiated forensic audit.

The World Bank's Integrity Vice-Presidency (INT), its department responsible for investigating allegations of fraud and corruption in its projects, published its audit findings on July 15, 2011. Among the 28,000 transactions sampled over two financial years (FYs) from July 2006 to June 2008, for seven districts and the project headquarters, it found that an alarmingly high 62 percent of the expenditures were suspected fraudulent or questionable. The queried funds included Government of Kenya (GoK) counterpart funds, which made up approximately 14.5 percent of the total suspected fraudulent or questionable expenditures. In all, INT found Ksh. 511 million in expenditures (excluding payroll expenditure) that caused suspicion, of which Ksh. 76 million were GoK funds.

INT then collaborated with the Kenyan Internal Audit Department (IAD) on a joint review of INT's audit to reach a final conclusion regarding how much of the World Bank's share of the audited expenditures would be declared officially "ineligible". According to all World Bank loan agreements, "ineligible" funds must be repaid to the World Bank. The joint INT/IAD report declared approximately 45 percent of the audited funds (Ksh. 340 million) ineligible. The INT/IAD report addressed only the

World Bank funds, not the Ksh. 76 million in questionable GoK expenditures. If INT/IAD audit the remaining 21 districts, as promised, then the amounts queried are likely to increase significantly. Projecting the same rates of ineligible spending to all of the districts, the amount for the last two project years alone, could easily exceed Ksh. 1 billion in funds - money that the GoK would need to refund to the World Bank.

Phase Two of the Arid Lands Resource Management Project (ALRMP II) ran from 2003 to December 2010, having succeeded the original ALRMP, which ran from 1996 to 2003. Until the creation of the Ministry for the Development for Northern Kenya and Other Arid Lands in 2008, the project was under the Office of the President. ALRMP I was itself a successor project to the World Bank-funded Drought Recovery Project (EDRP), which had run from 1993 to 1997. By the end of ALRMP II, which was the subject of the INT audit, the project covered 28 districts, 11 of which were arid and 17 semi-arid. INT began their audit in April 2009, and based on its preliminary findings, suspended the project in July 2010. The project was closed in December 2010, effectively ending plans to roll out the third phase,<sup>1</sup> scheduled to provide another US\$ 100 million in World Bank funds, and at least another US\$ 45 million from other donors. Table 1 summarises all funding that has gone into ALRMP to date.

<sup>1</sup> Arid and Semi-Arid Lands Sector-Wide Program, Project Information Document (PID) Concept Stage, World Bank Report No.: AB5561.

**Table 1. World Bank funding for the ALRMP and its precursor project (in millions of US\$)**

Project	Year	World Bank Funding	Partner Funding	Community Contribution	Government of Kenya Funding	Total Funding
EDRP	1993	30.03	1.81		2.50	34.34
ALRMP I	1996	19.40			4.90	24.30
ALRMP II	2003	51.80	8.20	4.30	13.60	77.90
ALRMP II Supplemental	2006	60.00	14.00		7.00	81.00
KACCAL	2010	5.50		0.13	0.69	6.32
<b>Total</b>		<b>166.73</b>	<b>24.01</b>	<b>4.43</b>	<b>28.69</b>	<b>223.86</b>

**Sources:** (i) EDRP: Implementation Completion Report: Kenya Emergency Drought Recovery Project, June 29, 1998, page 20; (ii) ALRMP I: Implementation Completion Report: Arid Lands Resource Management Project, December 30, 2003, page 24; (iii) ALRMP II: Project Appraisal Document: Arid Lands Resource Management Project Phase Two, May 23, 2003, page 1; (iv) ALRMP II Supplement: Project Information Document (PID) Appraisal Stage, page 4; (v) Partner Funding for 2007-2009 only is taken from Arid Lands Website, Headquarters Printed Estimate: Vote D 35 Ministry of Development of Northern Kenya & Other Arid Lands: <http://www.aridland.go.ke/inside.php?articleid=535> (total Ksh. 986,393,030 at an average exchange rate of Ksh. 70); and (vi) KACCAL: Integrated Safeguards Datasheet Appraisal Stage, World Bank Report No. AC3178.

INT concluded that the problems in ALRMP were systemic because they were evident at headquarters, all sampled districts and across all project sectors. Also deeply troubling were signs that project staff may have been colluding in fraudulent behaviour with accountants in district treasuries, staff in Kenyan commercial banks and possibly with Kenya Revenue Authority (KRA) officials.

As Kenya launches a major constitutional reform involving the devolution of service delivery to the counties, the INT/IAD reports should raise concerns of the possibility that corruption will spread to the counties through the devolved management of development interventions.

One response of the GoK to the forensic audit findings has been to deflect attention from the audits by heaping praise on ALRMP's positive achievements. However, this report does not deal with the effectiveness of ALRMP in meeting its development and drought management

objectives. Instead, it is exclusively concerned with the issue of fraud and misuse of public monies. Indeed, if ALRMP represents a successful model in ameliorating drought devastation and poverty, then that is all the more reason to ensure that 100 percent of the funds go to intended purposes. If the project can achieve the success that GoK says it has with less than 50 percent (sometimes much less) of the money getting through to the targeted beneficiaries, then imagine what could have been achieved if 100 percent of the funding actually reached intended beneficiaries. Additionally, the fact that GoK must use Ksh. 340 million of taxpayers' money to refund the World Bank for ineligible expenditures, denies that amount of money for other Kenyan development needs. Misuse of public money should not be tolerated anywhere; but theft of funds destined for the poorest and long-neglected citizens of Kenya is especially abhorrent.

Both the Ministry of Finance and the Ministry for the Development for Northern Kenya and Other Arid Lands have taken defensive postures on the audit report findings. To deny the existence of a problem is to undermine the development of a solution. Rather than accepting responsibility for failing to safeguard donor funds and to efficiently administer the project, the ministries appear intent on denying that misappropriation and mismanagement occurred. This is their stance in official communications to the World Bank and in response to challenges by Members of Parliament on 6 March, 2012. In effect, the ministries are expressing doubt over the professionalism of the government's own IAD. Although the report of the INT audit was forwarded to the Kenya Anti-Corruption Commission (KACC) – now the Ethics and Anti-Corruption Commission (EACC) – on 31 August 2011, the action to date by that office is not clear.

We recommend the speedy investigation and prosecution of those implicated in the misappropriation of funds, and if found culpable, the recovery of the lost money from their assets, so that Kenyan taxpayers do not foot the bill for this fraud. Further, because of the low level of competence in management that is amply detailed in both reports, we recommend that all senior ALRMP II staff, including those who have subsequently taken up other public appointments, should be evaluated on the basis of the provisions of Chapter Six of the constitution on leadership and integrity. The government should also make good its promise for an expanded audit to cover the remaining 21 districts.<sup>2</sup>

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<sup>2</sup> Joint Review to Quantify Ineligible Expenditures, INT and IAD, 18 November 2011, Page 5

## 2. THE ARID LANDS RESOURCE MANAGEMENT PROJECT

### 2.1 Introduction

The underdevelopment of arid and semi-arid areas in Kenya has been a source of national debate since independence. This state of affairs has been attributed to the skewed distribution of resources based on inequitable national development planning. Sessional Paper Number 10 of 1965, which has largely guided national development since Independence, divided the country into low and high potential areas.<sup>3</sup> The arid and semi-arid lands (ASALs) were categorised as low potential areas and considered unlikely to effectively contribute to the country's economic growth in the early independence years. The Sessional Paper argued for the preferential treatment of high potential areas, with the expectation that the fruits of their development would percolate to low potential areas.<sup>4</sup>

There have been numerous initiatives over the years aimed at alleviating the consequences of underdevelopment in the ASAL regions of Kenya. The most notable of these was the World Bank-funded ALRMP originally launched in 1996, (based upon the pilot project begun in 1993 – the EDRP), and whose final phase (II) has been at the centre of corruption investigations and public debate since 2009.

World Bank funding of Kenyan arid area projects commenced with the Emergency Drought Recovery Project (EDRP) in 1993 funded to the tune of US\$ 34.34 million. EDRP operated in four districts (Baringo, Mandera, Turkana, and Wajir), and was followed by ALRMP in 1996 (US\$ 24.3 million), which expanded the project to the remaining arid districts (Garissa, Isiolo, Marsabit, Samburu, and Tana River). The project was renewed again in 2003 as ALRMP Phase II for US\$ 77.9 million, at which point 11 semi-arid districts were added (Kajiado, Kitui, Laikipia, Makueni, Mbeere, Mwingi, Narok, Nyeri—Kieni East and West, West Pokot, Tharaka, and Trans Mara), while Moyale and Ijara became independent arid districts (formerly parts of Marsabit and Garissa, respectively). ALRMP II was further topped up in 2006 with an additional US\$ 81 million, whereupon another six semi-arid districts were added (Kilifi, Kwale, Lamu, Malindi, Meru North, and Taita Taveta). ALRMP II brought the total number of districts served to 28, of which 11 were arid and 17 semi-arid. Each new phase of the project added new functions. Development initiatives in particular, were increased in an attempt to lift these populations to economic self-sufficiency, thereby reducing the need for chronic provision of famine relief. The drought early warning systems were also expanded with the intent to better identify impending emergencies so that the government and donors could provide more timely responses.

Given that many of the staff who held management positions in ALRMP during the audited period had

<sup>3</sup> "Sessional Paper Number 10 of 1965 on African Socialism and Its Application to Planning in Kenya", GOK (1965) Nairobi: Government Printer

<sup>4</sup> Report of the Kenyan Task Force on Devolution, November, 2011

been with the project for a decade or longer, including the two AIE (Authority to Incur Expenditure) holders in headquarters and many of the drought management officers (DMOs) it is entirely possible that financial mismanagement was prevalent during succeeding phases of the project. However, the World Bank's forensic audit covered only two years (2006-2007) of the ALRMP II project. Due to resource constraints, the audit sampled only seven out of the 28 districts: five arid and two semi-arid.

Prior to the INT forensic audit, there was every reason to believe that the arid lands project would go to a third phase with a higher funding level. Indeed, the World Bank had already prepared project documents for that phase, to be called "Arid and Semi-Arid Lands Sector-Wide Program". Further, it had even set a Board date (23 November 2010) to approve that project for an additional US\$ 100 million in World Bank money, plus an expected US\$ 45 million from other donors.<sup>5</sup> As a consequence of the INT audit findings however, plans for continuation of World Bank funding ceased. Additionally, in March 2010, the World Bank had just approved supplemental funding of US\$ 5.5 million for the second phase of the ALRMP II entitled: **Kenya: Adaptation to Climate Change in Arid and Semi Arid Lands (KACCAL)**. Following the INT audit report, this funding was also frozen.

## 2.2 Project components

ALRMP II (2003 to 2010) had three components: Natural Resources and Drought Management (NRM), Community Driven Development (CDD), and Support to Local Development (SLD). The semi-arid districts did not participate in the CDD component.

**Natural Resources and Drought Management:** The project promoted capacity building in recognition of

the constraints and potential of the natural environment and strengthened conflict management by creating dialogue between competing groups over the use of natural resources. The drought management component sought to create both preparedness for and response to emergencies by strengthening the drought early warning system. The component also aimed to strengthen the data collection initiatives and make drought management an integral part of government systems. Drought monitors in each district were assigned to monitor a variety of household level statistics and local marketing conditions, including livestock prices, to capture early signs of stress in the community.

**Community Driven Development:** The CDD component was the single largest activity of the project. Only the 11 arid districts participated in this component. The aim was to generate development capacity at community level and below, thus empowering communities to take greater charge of their own development agenda. Under CDD, communities prioritised and chose projects, selected their leaders, implemented, and financially managed the projects. Extensive community training was built into the model. Potential projects fell into one of three categories: 1) infrastructure and service delivery (such as water development, animal and human health, and education); 2) safety nets to support the most vulnerable members of the community with restocking and shelter projects; and 3) income-generating activities to support commercial activities such as trading, fishing, or beekeeping. Each community project required a 30 percent contribution in labour or capital from the community. Transparency in all matters at the community, district, and national levels was a key principle upon which the model depended, as it rested upon citizen monitoring and evaluation.

**Support to Local Development:** The SLD component aimed at helping communities end the culture of dependency on external interventions by coming up with sustainable economic activities. Specific investment funds were earmarked for various sectors, including education (mobile schools), human health and HIV/AIDS, livestock production (including marketing and health),

<sup>5</sup> Arid and Semi-Arid Lands Sector-Wide Program, Project Information Document (PID) Concept Stage, World Bank Report No.: AB5561.

and agricultural advisory services (including training in irrigation). This component also sought to encourage the government to create clear ASAL development policies.

## 2.3 The community driven development model

As Kenya embarks upon more decentralisation of revenue for development through the newly launched county system, it is worth understanding how the development model employed by ALRMP worked. The lessons arising may provide insights into how things can go wrong with decentralised or devolved funding.

ALRMP created a district steering group (DSG) to identify recipient communities. The DSG was a committee chaired by the district commissioner, with the district head of arid lands (DMO) serving as its secretary. It comprised government departmental heads, local and international non-governmental organisations working in the district, and local leaders. Its function was to coordinate project activities to avoid duplication at district level – both government and donor funded – and to engage with communities on development issues. At the request of the DMO, the DSG was tasked with approving the eligibility of specific communities for projects, approving

the specific micro projects proposed by communities, and monitoring and evaluating projects.

ALRMP interfaced with communities through their elected community development committees (CDCs). The project had a large training budget, which it used to train community members, CDCs, ALRMP staff, GoK officials, and the DSG. Mobile extension teams were led by ALRMP staff who visited target communities and CDCs to help them formulate community action plans that prioritised their micro-projects (capped at US\$ 10,000). Project proposals were vetted by the ALRMP office and forwarded by the DMO to the DSG for approval. Once one micro-project had been successfully implemented and accounted for, the community could request approval for an additional project. As the intermediary between the communities and the DSG, and with the power of the purse, the head of each district's ALRMP office, the DMO, together with the project's community development project officer (CDPO), held a great deal of leverage over both the communities and the DSG. One can easily see how a DMO and/or CDPO might have misused such a position to extract kickbacks from communities and maintain their silence regarding project irregularities. If communities complained, the DMO and CDPO were in a position to withhold future projects.

## 3. THE WORLD BANK INT AUDIT FINDINGS

### 3.1 The scope and methodology of the INT audit

ALRMP II covered 28 ASAL districts over seven years. This phase followed the ten years allowed for the first phase and its precursor, making a total lifespan of 17 ALRMP years. While rumours of funding mismanagement in the project circulated for many years, the first wide-scale forensic audit of the project was the one conducted by INT, launched in April 2009. Given its own resource constraints, INT opted to sample just seven out of the 28 districts, together with the head office in Nairobi. The sample consisted of five arid districts (Garissa, Isiolo, Samburu, Tana River, and Wajir), two semi-arid districts (Nyeri and Kajiado), and the Nairobi head office. It also chose to sample just two financial years, FY 2006/07 and FY 2007/08. Despite these constraints, this amounted to a large-scale forensic audit exercise, as 28,000 transactions were audited. The forensic audit report acknowledges that because the audit did not cover all years and all districts, the audit does not capture the full scale of likely corruption in the project.

The core mandate of the INT audit was to identify suspected fraudulent expenditures (SFE); that is, any expenditure that appeared fabricated (not real), inflated, or otherwise invalid. “SFEs normally had either inconsistent documents supporting the transaction or inconsistent information or documents were obtained through third parties or field work, which raised doubts

as to the genuineness of the transaction.”<sup>6</sup> The audit also identified what it referred to as questionable transactions (Q). Questionable transactions could include SFEs, but also included expenditures that were not supported by sufficient documents, or that breached GoK regulations, or that did not meet the legal definition of an eligible expenditure under the World Bank Credit Agreement.

To ensure that they had adequate knowledge of GoK regulations and policies, the INT team hired a team of Kenyan certified chartered accountants with significant experience, and worked with the local World Bank financial management specialist. The team attempted, wherever possible, to use third party evidence to verify transactions rather than relying exclusively upon project documentation. For example, it conducted fieldwork in the various districts to confirm whether suppliers had actually submitted quotations for failed tender bids on record; it examined suppliers’ records to see if they agreed with ALRMP receipts; and it visited some community projects to verify their existence.<sup>7</sup> INT used bank statements and cleared cheques to cross reference with payment vouchers and cashbooks. The handwriting on losing quotations was compared to that on winning quotations to determine whether the quotations were written by the same individual. KRA records were sought to compare reports of payments for Value Added Tax (VAT) with reported receipts.

<sup>6</sup> Forensic Audit Report of the World Bank into the ALRMP II, July 2011, Page 12

<sup>7</sup> Pages 16-17, *ibid.*

## 3.2. INT audit findings

Although the Arid Lands project was subject to the annual GoK audits and periodic reviews by the auditor general's office that apply to all GoK sectors, none of those exercises touched the surface of what was uncovered by the independent INT audit. In fact, Kenyans might wish to probe why fraud of this magnitude was missed by Kenya's internal auditors.

INT found high percentages of suspected fraudulent and questionable expenditures in all seven audited districts and headquarters. Table 2 shows the absolute shilling amounts, and the percentages of the total budget that were suspicious for FY 2007/08 (July to June). The

percentages in the districts ranged from 44 percent of all expenditures for Tana River, to a high of 75 percent in Wajir, with an average of 66 percent across all districts. The rate for headquarters stood at 43 percent. The overall figure of suspected expenditures for the audited sample, excluding payroll – which INT could not audit properly due in part to lack of cooperation from the project staff – was 62 percent. The report noted that the irregularities were systemic across all the districts, which suggests that this behaviour may be common to the other 21 districts of the project. In most of the audited districts and at headquarters, the paperwork was not properly kept. In some cases, the records were missing or, where they existed, they were contradictory.:

TABLE 2. INT suspected fraudulent and questionable ALRMP expenditures FY 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%
<b>Total with HQ</b>	<b>828,377,000</b>	<b>511,623,000<sup>†</sup></b>	<b>62%</b>

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.

Personnel emoluments represented the single largest expense of ALRMP II (17 percent), with a payroll that grew from 326 on July 1 2006 to 418 as at 30 June 2008. INT was not able to properly audit the payroll costs because attendance, and even the existence, of staff could not be retrospectively verified. INT received a significant number of payroll related allegations of irregularities, and put them to the project management in writing. INT attempted to collect information regarding recruitment processes, pay levels, educational qualifications, staffing levels and age of employees at the time of recruitment (to verify that they did not violate GoK recruitment rules, including the mandatory retirement age). INT repeatedly requested a complete list of all staff and their respective ages, but received no response from the project management. This is another example of why a complete payroll audit was impossible. Had INT confirmed the allegations that the project recruited people who were already over the GoK mandatory retirement age, INT suggests that questions would have arisen over the eligibility of those entire salaries.<sup>8</sup> Due to the incompleteness of the payroll audit, the payroll data are not included in the tables representing audited data from the project.<sup>9</sup>

According to the terms of World Bank loans and grants, project staff must cooperate with INT investigators. It appears that this condition of the loan agreement was not satisfactorily met. It is difficult to evaluate whether any consequences ensued from this non-compliance, as the World Bank has continued to extend further loans to Kenya.

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8 Page 42, *ibid*.

9 The 29 percent figure discussed in the Executive Summary of the INT Report deflates the true extent of the suspicious expenditures by including the entire payroll for all 28 districts of ALRMP in the denominator. Given that INT could not properly audit the payroll, and that the audit covered only 7 districts plus headquarters, and not all 28 districts, the 29 percent figure underestimates the extent of the problems uncovered in the audit, which are more accurately captured in Tables 3 and 4 from the original audit, and summarised here in Tables 2 and 3. The joint INT/IAD report drops analyses of payroll data from all of its tables, as is appropriate.

Table 2 presents the percentages of suspicious expenditures for each audited district and the project headquarters. Table 3 shows the percentages of suspicious expenditures broken down into the three project components and some crosscutting undertakings. The percentage of suspected expenditures in CDD was 84 percent (column 1), of which 75 percent was suspected fraudulent expenditure, while 9 percent was questionable expenditure. The combined suspected fraudulent and questionable expenditures in the SLD project component (column 2) were 88 percent. SLD incorporates most of the civil works and the purchase of goods and equipment for the project contracted by the districts directly. We also see from the table that 71 percent of the transport expenditures (made up primarily of fuel and vehicle maintenance) were suspected fraudulent and questionable.

The following are examples of the kinds of problems that INT and IAD identified in ALRMP II.

### 3.3 Examples of suspected fraudulent expenditures

- **Use of proforma invoices** (quotations from suppliers) is never allowed in place of actual receipts, but they were commonly found in ALRMP accounts. Quotations can be procured from any number of suppliers whether or not the event or purchase takes place.<sup>10</sup>
- **Irregularities in the procurement process**
  - The project was subject to both GoK and World Bank rules and regulations. Many examples of procurement practices were in violation of both GoK and World Bank regulations.

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10 Joint Review to Quantify Ineligible Expenditures, INT and IAD, 18 November 2011, Page 10.

TABLE 3. INT forensic audit findings by project component (in Ksh.)

	Community Driven Development (CDD)	Support to Local Development (SLD)	Drought Contingency (DC)	Training	Transport	Other	Total All Project Components
Total Arid Lands Budget FY2007-2008	136,879,000	201,053,000	65,677,000	97,958,000	84,505,000	80,285,000	666,357,000
Suspected Fraudulent	101,996,000	128,438,000	15,418,000	21,893,000	49,242,000	9,618,000	326,607,000
Percent Suspected Fraudulent	75%	64%	23%	22%	58%	12%	49%
Questionable	12,487,000	48,762,000	14,272,000	12,838,000	10,429,000	16,053,000	114,841,000
Percent Questionable	9%	24%	22%	13%	12%	20%	17%
Suspected Fraudulent and Questionable	114,483,000	177,200,000	29,690,000	34,731,000	59,671,000	25,671,000	441,448,000
Percent Suspected Fraudulent and Questionable	84%	88%	45%	35%	71%	32%	66%

Source: Forensic Audit Report: Arid Lands Resource Management Project - Phase II, Redacted Report (July 2011), World Bank Integrity Vice-Presidency (INT); Table 4, page 25. Data includes GoK funds as well as World Bank funds.

- Bid rigging, possible collusion between various suppliers and ALRMP management, and falsified supporting documents for services and goods. For example, in one transaction there was no tendering, no quotations were sought, and the purchase order (which authorises the DMO to procure) was dated 31 October 2006, whereas the invoice (from the supplier requesting payment against delivered goods and services) for the same transaction was dated 28 September 2006. It is a violation of GoK procurement

procedures to pay for goods prior to them having been authorised for purchase, and prior to their delivery.<sup>11</sup>

- There were cases where a vendor was pre-approved as a single source (no tendering required) to provide specific goods, but then also provided additional goods that had not

<sup>11</sup> Pages 10-11, *ibid.*

been preapproved for single sourcing. In some instances, these additional goods amounted to 90 percent of the total goods supplied. This is a violation of the procurement rules that require three quotations for goods not preapproved for single sourcing.<sup>12</sup>

- In one livestock-restocking project of Ksh. 500,000, goats were supplied to the CDC at a different price than that quoted and approved by the CDC officials. The cash sale receipts did not appear authentic, and the list of beneficiaries provided only their names and not the number of goats received or their signatures and ID numbers.<sup>13</sup>
- **Fuel purchases<sup>14</sup>**
  - Fuelling of personal and non-project vehicles (one such voucher was for Ksh. 637,205)
  - In some cases no till receipts were availed; till receipts normally record the precise number of litres pumped, as well as the cost (per litre and in total)
  - Significant alterations on fuel supporting documents (delivery notes and detail orders)
  - Use of proforma invoices (quotations, as opposed to actual receipts)
  - Lack of proof regarding the use of fuel for particular activities
  - Fuel purchased for other government departments.

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12 Page 10, *ibid.*

13 Page 9, *ibid.*

14 Page 10, *ibid.*

- **Vehicle maintenance<sup>15</sup>:**
  - Tyres were often purchased using proforma invoices, which are bids submitted by a supplier, not receipts, and do not provide any evidence that the goods were actually supplied.
  - Tyre purchases require pre- or post-inspection certificates, which were often missing.
  - In some cases, tyres were bought without reference to the vehicle(s) for which they were purchased. This opens the possibility that they were purchased for non-project vehicles.
- **Suspected kickbacks to DMOs on community projects** INT's fieldwork uncovered evidence consistent with allegations they received about kickbacks to DMOs. INT was advised that it was common practice for the community officers in the CDC to visit the DMO's office, collect their cheques for an approved project, deposit the cheque in the CDC's bank account, and remain in town until the cheques cleared, after which they would immediately withdraw a large cash amount and make a payment to the DMO. For example, INT investigated a livestock-restocking project in which on the day following receipt of the approved grant of Ksh. 493,750, 27 percent of the funds were withdrawn from the account. Upon questioning, the CDC chairperson could not explain what those funds were used for, since the restocking actually took place two months later.<sup>16</sup>
- **Suspected fabricated documentation**
  - For FY2007/08, Nyeri submitted vouchers to INT for more money than they had actually received,

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15 Page 10, *ibid.*

16 Forensic Audit Report of the World Bank into the ALRMP II, July 2011, p. 16

according to their financial monthly reports (FMRs). Their vouchers totalled 113 percent of the funds they had actually received, suggesting that a sizeable percentage were fraudulent.<sup>17</sup>

- Documentation supporting certain payment vouchers (in several districts) was suspected to be fictitious. For example, vehicle-running sheets were attached to two separate vouchers and identified as relating to the same vehicle, for the same period, but with different operating histories.<sup>18</sup>
- **Imprests**<sup>19</sup>
  - Individuals had multiple imprests outstanding (issued when an officer is to incur expenses outside duty stations), contrary to GoK regulations that require each imprest to be accounted for immediately on return from travel outside duty stations. GoK regulations also expressly forbid additional imprests from being authorised prior to clearing a former outstanding imprest.
  - Insufficient or inconsistent receipts were submitted to account for imprest advances, and there was no evidence that any unspent balance of the imprest was actually surrendered to the cashier.
- **Suspicious year-end expenses** Plans for incurring expenses should not precede the receipt of an AIE. INT questions how training exercises for which both the notice of AIE and the remitted funds were received on 14 June 2007 by Tana River district could

have been legitimately spent before the end of the financial year, 30 June 2007, as was reported. Given that the AIE arrived two weeks prior to the end of the financial year, is two weeks enough time to propose, plan, approve, confirm venues, invite participants, mobilise trainers, hold the event, and pay for it?<sup>20</sup> A possible motive for issuing an AIE so close to the end of the financial year could be to ensure that all funds were expended. FMR expenditures should match the issuance of an AIE. INT did not reconcile accounts with the work plans, so there is no way of knowing if the said activity was in the work plan which is formulated in the beginning of the FY, and money therefor requested on this basis; it may well be that training was scheduled (with everything arranged) for an earlier month, but the funds only received in June. However, rushed year-end exercises raise questions about the legitimacy of the expenditures.

- **Suspected fraudulent bank charges** In some districts, including Wajir, the project's office drew cheques to pay for bank charges, despite the fact that these charges were being automatically debited from the account. The payee for two such cheques in Wajir was "Aridlands Res. Management Project"; both cheques were written on a weekend.
- **Suspicious cash withdrawals** The Kajiado DMO deposited a cheque of unknown origin to the ALRMP account for Ksh. 576,500 on 23 March 2007, and on the same day withdrew a cash cheque for the same amount in his own name. The pattern was repeated by the same individual with two withdrawals (within the month) exactly equivalent to a deposit into the ALRMP account of 1,750,000 on 11 April 2007.<sup>21</sup>

17 Page 23, *ibid.*

18 Joint Review to Quantify Ineligible Expenditures, INT and IAD, 18 November 2011, p. 11

19 Page 12, *ibid.*

20 Forensic Audit Report of the World Bank into the ALRMP II, July 2011, p. 28

21 Page 40, *ibid.*

### 3.4 Systemic problems uncovered in the INT audit

- **Poor and suspicious financial management and record keeping**
  - “The mere fact that insufficient vouchers were provided to INT compared to the expenditure claimed by the project as detailed in the FMRs, across all the districts sampled, points to a systemic weakness in the financial management and account systems.”<sup>22</sup>
  - The districts did not maintain sufficient documentation to reconcile the differences between vouchers and FMRs<sup>23</sup>
  - The project acknowledged that the new integrated financial management information system (IFMIS) which would have allowed for accounting entries to be posted and therefore accounting reporting to be undertaken, was not yet working, and yet some of the districts did not keep ledgers either. This means that no proper accounting system was functioning.<sup>24</sup>
  - There was no uniform system set up across the project that would allow financial managers or auditors to properly match vouchers with expense categories. Headquarters filed vouchers chronologically, while some districts filed all receipts by category, such as training (that might include fuel, trainer and driver allowances, and food), while other districts filed all vehicle expenses together (fuel and vehicle maintenance), whether they applied to training or other activities. Given that the GoK was obligated to contribute 20 percent of the costs to fuel used for non-training purposes, but

<sup>22</sup> Page 58, *ibid.*

<sup>23</sup> Page 56, *ibid.*

<sup>24</sup> Page 7, *ibid.*

not fuel used for training, these organisational issues reveal serious problems in the ability of the project to comply with the terms of the agreement and facilitate proper audit oversight.<sup>25</sup>

- In several districts, the cashbook was not produced contemporaneously with the expenditures. This was the case in Isiolo where six cashed cheques worth Ksh. 1.3 million were all recorded in the cashbook on 30 August 2006, but the cash withdrawals occurred on different dates that month.<sup>26</sup> In Tana River it was obvious that significant parts of the cashbook had been completely rewritten, because the old cashbook pages were left in the book.<sup>27</sup>
- **No fixed asset register**
    - The project did not maintain a complete and accurate fixed asset register for all project property, including vehicles and computers.<sup>28</sup>
    - There were no accountability mechanisms to ensure that income from property sold by the project was returned into the project, or by the GoK. This is a violation of Article 4 of the original development credit agreement (DCA).<sup>29</sup>
    - The project staff told INT that no vehicles had been disposed of prior to 20 June 2008. However, vouchers were identified that showed that expenses were recorded to have vehicles inspected, which is a prequalification for disposal, and advertising expenses were

<sup>25</sup> Page 21, *ibid.*

<sup>26</sup> Page 40, *ibid.*

<sup>27</sup> Page 41, *ibid.*

<sup>28</sup> Page 50, *ibid.*

<sup>29</sup> Page 7, *ibid.*

booked to advertise the impending sale of vehicles prior to 30 June 2008.<sup>30</sup> Assuming that such vehicles were sold, no information, vouchers or other supporting documents indicate that the project recorded any income from the disposal of those assets. During the course of the audit, it was confirmed that in addition to the World Bank fleet of purchased vehicles, the project inherited vehicles from the Drought Management Initiative (DMI), Japanese International Development Agency, and the United Nations Development Programme (UNDP) over its 17 year duration. Without a complete fixed asset register, the project had no means of ensuring that vehicles and computers did not disappear into private hands over the project's 17 year history.<sup>31</sup>

- **Inconsistencies in funds flow and bank balances**

- FMRs submitted by the project to the World Bank indicated significantly different funds flow patterns than those documented in bank statements. While the bank statements showed fairly stable expenditures across quarters, the FMRs showed highly concentrated expenditures in the fourth quarter, with over 50 percent of annual expenditures in both years, while the first quarter had less than 10 percent in both audited financial years.<sup>32</sup>
- Most district bank balances were stated in the FMRs as nil, which was often not the case. In the case of Wajir, they reported a bank balance in FY2006/07 of Ksh. 816,665, when the actual balance was Ksh. 16,898,926; for

FY2007/08 Wajir reported a balance of Ksh. 1,189,695, while the actual balance was Ksh. 22,148,996.<sup>33</sup>

- **Cheque irregularities**

- Across the whole project, but especially at headquarters and in Wajir, a significant number of cheques were extensively delayed before presentation, often by months. At headquarters, 99 of 712 cheques were presented more than 30 days late, with an average of over 71 days before presentation, and a maximum of 178 days. One motive for such a high number of delays in cashing cheques is that under GoK regulations, if budgets are not spent in a given financial year, the unspent funds are returned to the Consolidated Fund. This project never reported unspent funds.<sup>34</sup> This raises a concern that perhaps the cheques were not actually issued to the suppliers as of 30 June, despite appearing in the cashbook. Delays in the presentation of cheques are often an indication that the goods and services for the underlying transaction were not provided at all, or that the cheque was written ahead of the receipt of the goods and services in order to avoid having to return unspent funds to the Consolidated Fund at the end of the financial year. Both are violations of GoK and project regulations.<sup>35</sup>
- There were also cases of cheques that were not recorded in cashbooks, but which were present on bank accounts. In Tana River district, eight cheques were written to primary schools for Ksh. 330,000 each (total: Ksh. 2.64

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30 Page 50, *ibid.*

31 Page 51, *ibid.*

32 Page 31, *ibid.*

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33 Page 29, *ibid.*

34 Page 32, *ibid.*

35 Pages 30-32, *ibid.*

million). INT requested the original cleared cheques for these transactions from the Kenya Commercial Bank branch in Tana River, but despite a number of follow-up enquiries, they were not provided. These payments to the primary schools were not supported by payment vouchers or recorded in the cashbook, and INT treated them as suspected fraudulent.<sup>36</sup>

- **VAT issues**

- The project was Value Added Tax (VAT) exempt, but each supplier to the project had to receive specific KRA confirmation in advance that the project was exempt, so that the supplier could issue a VAT exempt invoice. In the absence of a pre-approved VAT exemption, a supplier had to issue ALRMP with a VAT inclusive invoice. The project was then expected to pay the supplier the net amount (excluding VAT), and then pay the VAT liability to KRA directly (out of GoK counterpart funds), and file a weekly return with KRA (the VAT return). KRA would then issue a VAT exemption certificate for the benefit of the supplier. Many violations of VAT policies were noted, though neither KRA nor ALRMP records were adequate to perform a proper reconciliation.<sup>37</sup>
- “It appears some [VAT] exemptions were sought and applied retrospectively.”<sup>38</sup> According to GoK regulations, such exemptions had to be preapproved, so this was a violation of GoK policy.

- “There were discrepancies between what ALRMP withheld for VAT purposes and what it paid to KRA.”<sup>39</sup>
- In some districts, cheques were drawn to KRA or ‘Commissioner of VAT.’ Numerous irregularities with respect to these cheques were observed. Some of these cheques were cashed in the districts, with records provided by KRA confirming that the same amounts were never received by KRA.<sup>40</sup> This suggests that the cheques were cashed by private parties, and that VAT could have provided an opportunity for embezzlement.<sup>41</sup>

- **Double dipping**

- ALRMP received additional funding and assets from donors such as UNDP, the DMI funded by the European Union (EU), and Oxfam, among others.<sup>42</sup>
- In some cases, the mandates of the initiatives funded by ALRMP II and those funded by other donors were similar. This was most especially the case given the overlap that existed between ALRMP’s drought management initiative and the EU-funded DMI.
- *“A significant component of the ALRMP II project also related to drought management and included activities such as the early warning data collection process and management of the drought contingency fund. An overlap of activities and components therefore may have*

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36 Page 33, *ibid.*

37 Pages 18 and 59, *ibid.*

38 Page 59, *ibid.*

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39 Page 18, *ibid.*

40 Pages 59-60, *ibid.*

41 Page 68, *ibid.*

42 Page 60, *ibid.*

*existed between expenditures incurred for ALRMP II, DMI, and possibly other donors such as Oxfam (this was an allegation that INT received.).”<sup>43</sup>*

- While some of the funding from other organisations was channeled directly through the World Bank, during the audit INT became aware that funds were also being deposited directly to the bank accounts of headquarters, and even to some districts.<sup>44</sup> Although other organisations may also have been tracking and auditing those funds, such a situation poses special risks of ‘double dipping’; that is, claiming the same activity against two separate donors.
  - *“Risks arise when expenditure by a project implementation unit could relate to more than one project it manages and where the expense is not readily identifiable to a project or is of a more general nature, such as the purchase of fuel. That is, the expenditure may be claimed against the wrong project, or fraud could occur if the expenditure was claimed against more than one project.”<sup>45</sup> A good example of the complexities that can arise in a case such as this occurred when INT queried project management about two new clerks hired in July 2007.*
  - *“...project management stated that, ‘the first two clerks were recruited to support the UNDP funded projects in Dadaab Joint Host Community Project and also the Armed Violence and Small*

*Arms Reduction Project both based in Garissa.’ Management commented that these projects supplemented ALRMP II initiatives in these matters. From INT’s perspective, if these clerks were funded by the UNDP, then INT expected income from UNDP to be reflected within the project’s accounts for these costs. No income from any other projects or donors has been reflected within the FMRs or annual financial statements of the project. It is still unclear to INT why these clerks could not be employed by the UNDP projects directly and whether the work is still ongoing. A query was sent by INT to UNDP regarding this issue but no response has been received to date.”<sup>46</sup>*

There are also possibilities that other projects or initiatives funded by the Constituency Development Fund, LATF (Local Authority Transfer Fund), and KESSP (Kenya Education Sector Support Programme) were being booked as ALRMP II funded projects. One such case involves payments to mobile schoolteachers, a programme originally funded by ALRMP, but as of 1 July 2007, funded by the Ministry of Education (through the KESSP project). Payments from ALRMP to mobile schoolteachers should have ceased at this time, but they appear to have continued, and in fact INT found some indications that they may have been appearing twice on ALRMP books. INT suspects that as much as Ksh. 2.265 million in salary payments for either mobile schoolteachers or drought monitors may have been double booked in the March quarter 2008 FMR.<sup>47</sup>

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43 Page 60, *ibid.*

44 Page 60, *ibid.*

45 Page 61, *ibid.*

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46 Page 45, *ibid.*

47 Pages 48 and 61, *ibid.*

### 3.5 Evidence of non-cooperation and possible collusion

All loan agreements between the World Bank and recipient governments require the government to cooperate with INT investigations. INT details many circumstances in which their work was impeded as a consequence of non-cooperation from the project and the government-owned bank, KCB. In other instances, evidence suggests that there could also have been collusion between project staff, bank employees, and government officials, particularly the district accountants at the District Treasury. At a minimum, there are sufficient glaring irregularities noted in the financial accounts of headquarters and all of the districts, to raise questions about the competence of project managers who had financial oversight responsibilities. The following are some examples that point to incompetence and possible criminal collusion.

- **Project management**

- “INT were advised by the project Finance and Administration Coordinator, Ruth Gathii, that the project did not have complete ledgers for the FY06/07 and FY07/08 years and further confirmed the annual financial statements for the project for those periods were based on the FMRs prepared from the payment vouchers and cashbooks. Despite several requests, no work papers for either FY06/07 or FY07/08 were provided which reconciled the annual financial statements to the FMRs. In essence, ledgers did not exist for all districts for the periods audited. The financial covenants set out in article 4.01(a) required the borrower to maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the International Development Association (IDA), adequate to reflect the operations, resources

and expenditures related to the project. It is questionable whether this covenant was met.”<sup>48</sup>

- “No actual bank account information was provided for any other headquarters’ bank accounts (other than the main Citibank account) or for any of the district bank accounts; yet during INT’s review of cleared cheques.... it was noted that the project had at the time, an account with Kenya Commercial Bank (KCB) Nairobi. INT had not been made aware of the existence of this account by project management. It is unclear why all districts and some headquarters’ bank accounts were not reported to IDA as part of the formal FMR package sent to IDA.”<sup>49</sup>
- INT received a number of payroll related allegations that were put to project management in writing. Project management did not respond, despite follow-up requests. In particular, the INT had requested a complete list of the ages of all staff, to verify whether some were recruited after they were beyond GoK mandatory retirement age. INT initially received a verbal positive response from the project that they would produce such information, but after INT repeated the request in writing, no response had yet been received by the time the report was completed.<sup>50</sup>
- Project management did not respond to a request to explain why certain staff salaries were different for people in the same job category.<sup>51</sup>
- Project management failed to provide INT with an audit report for Nyeri that led to the termination of the DMO for Nyeri, even though it covered the

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48 Page 55, *ibid.*

49 Page 29, *ibid.*

50 Page 42, *ibid.*

51 Page 44, *ibid.*

same period as the INT audit, and Nyeri was one of the districts in the INT audit sample.<sup>52</sup>

- During a field visit by INT to Garissa district in early 2010, documents were discovered by INT staff that had not been provided when requested in early 2009, and when the actual vouchers were supplied in April/May 2009. Because of the disarray in the audit trail, electronic versions of these records were requested, but never provided.<sup>53</sup>
- **Possible collusion between project staff and bank employees:** An important part of the forensic audit exercise involved examination of all cleared cheques for all districts and headquarters. This would have enabled INT to verify that the payees recorded on the cheques were the ultimate beneficiaries of the funds, and that the payee was the same party recorded in the cashbook.<sup>54</sup>
  - As of nine months from the original request, INT reports that at the time of their final report, many banks still had not provided significant numbers of cleared cheques.<sup>55</sup> The KCB branch in Garissa provided only 53 of 1053 cleared cheques; the KCB branch in Nyeri provided only 53 of 783 cleared cheques; the KCB branch in Tana River provided only 59 of 781.<sup>56</sup>
  - Some cleared cheques had alterations on the cheque face affecting either the payee or the date (even changing from June to February

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52 Page 45, *ibid.*

53 Page 57, *ibid.*

54 Page 35, *ibid.*

55 Page 35, *ibid.*

56 Page 32, *ibid.*

across financial and calendar years).<sup>57</sup> One cheque from Kajiado KCB branch showed the original payee (Commissioner of VAT) crossed out, and a totally different payee inserted, yet the cheque was cleared.<sup>58</sup>

- In numerous cases, the bank statements originally provided to INT by the project were not identical to those later provided to INT by the banks. Alterations were often seen in the narrative of the transaction description; in particular, there were many cases where references to cash transactions were deleted (KCB branches in Garissa and Maralal both did this; and Consolidated Bank in Isiolo removed the cheque number from the description, making it impossible to follow the audit trail).<sup>59</sup>
- Bank statements in Kajiado, Isiolo, and Wajir also failed to capture all cashed cheques. INT found that in these districts some cash cheques were described in the bank statement as “cash withdrawal chq no. xxx.” However, for some cash cheques, the words “cash withdrawal” were dropped.<sup>60</sup>
- **District accountants** Given that the district accountant from each district’s treasury was the joint mandatory signature with the DMO on all project cheques, and given the level of systemic problems with cheques across a number of the districts sampled, there is suspicion of collusion between project staff and district accountants. INT suggests that such issues are indicators “that a significant degree of collusion or mutual ineptness existed on

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57 Page 35, *ibid.*

58 Page 35, *ibid.*

59 Pages 37-38, *ibid.*

60 Page 40, *ibid.*

a systemic basis, as these problems were identified across a number of the districts sampled.”<sup>61</sup>

- One example of such suspicious activity is the high percentage of the total expenditures paid in cash for some districts – Kajiado (35 percent), Tana River (28 percent) and Isiolo (17 percent).<sup>62</sup>
- Many cheques were presented on bank accounts and did not appear in the cashbooks.<sup>63</sup>
- Although it was INT’s understanding that all imprest cash cheques should have been in the name of the DMO only, and jointly ‘opened’ by both the DMO and the district accountant, many cash cheques were written to other parties, some of whom were not even project staff.<sup>64</sup>

### 3.6 The joint INT/IAD audit

In response to the INT forensic audit findings, GoK directed its Internal Audit Department to look afresh at the INT findings. In June and July 2011, IAD revisited the transactions that had been flagged by INT. They did not audit expenditures that were not flagged by INT. According to the joint report, IAD initially reduced the amount of suspected fraudulent and questionable expenditures from Ksh. 511 million to Ksh. 159 million.<sup>65</sup> The World Bank and IAD then conducted a joint review to finalise the amount of ineligible expenditures and reconcile the differences in their two reports. At this

<sup>61</sup> Page 29, *ibid.*

<sup>62</sup> Page 34, *ibid.*

<sup>63</sup> Page 33, *ibid.*

<sup>64</sup> Page 34, *ibid.*

<sup>65</sup> Joint Review to Quantify Ineligible Expenditures, INT and IAD, 18 November 2011, Appendix 1, Page 4

point, the focus of the GoK should rather have been on bringing any and all culprits implicated in the INT audits to book than on getting looking to reduce the extent of ineligible expenditures which must be refunded. In any case, the joint audit report with IAD, dated November 2011, determined that Ksh. 340 million was the final figure of ineligible expenditures from the seven districts audited and headquarters.<sup>66</sup> According to World Bank regulations, and the terms of the ALRMP loan agreement with the GoK, funds that are ruled “ineligible” must be refunded to the World Bank by the recipient country.

To understand how the final numbers were agreed upon, it is important to explain the differences between the two reports. In its original report, INT flagged 3,257 transactions as suspected fraudulent or questionable. Of these, 71 were GoK funded (Ksh. 76 million), and would not therefore require repayment to the World Bank, leaving a balance of 3,186 suspicious transactions. In the joint review with IAD, it was agreed that 2,907 transactions were suspected fraudulent or questionable, and formally classified as “ineligible”.<sup>67</sup> As already stated, according to World Bank rules, all “ineligible” expenditures must be refunded to the Bank.

In Table 4, we find the percentages of audited funds that INT and IAD jointly agreed were ineligible expenditures from the project. In comparing the absolute shilling amounts and percentages from Table 2 (INT figures) and Table 4 (joint INT/IAD figures), it is important to know that in INT’s original audit, they examined and included the portion of project funds that were GoK contributions and VAT payments. The joint INT/IAD report gives the value of suspected fraudulent GoK funds as Ksh. 76 million. This explains part of the difference in numbers between INT’s original audit figure for suspected fraudulent and questionable (Ksh. 511 million, excluding payroll), versus the final amount of ineligibles (Ksh. 341 million) from the joint review with IAD. Some transactions suspected by

<sup>66</sup> Page 4, *ibid.*

<sup>67</sup> Joint Review to Quantify Ineligible Expenditures, INT and IAD, 18 November 2011, Appendix 1, Page 7

INT to be fraudulent or questionable were not resolved, and remained “unclassified/not reviewed”; others were clarified by IAD based upon the production of new documents at district level (from community records, the project, the banks, and the district treasuries). In some cases, newly produced documents from the districts were themselves suspicious.<sup>68</sup>

**TABLE 4. Funds ruled ineligible in joint INT – IAD audit (in Ksh.)**

District	World Bank Budget (excluding known GoK share) FY2007-2008	Ineligible World Bank Expenditures FY 2007-2008	Percent World Bank Ineligible FY 2007-2008
Garissa	113,597,000	62,740,000	55%
Isiolo	106,182,000	51,827,000	49%
Kajiado	40,129,000	15,799,000	39%
Nyeri	29,410,000	16,550,000	56%
Samburu	100,298,000	41,222,000	41%
Tana River	79,481,000	19,592,000	25%
Wajir	136,822,000	95,214,000	70%
District sub-total without HQ	605,919,000	302,944,000	50%
Headquarters	146,730,000	37,683,000	26%
<b>Total with HQ</b>	<b>752,649,000</b>	<b>340,627,000</b>	<b>45%</b>

**Sources:** Ineligible Expenditures and Government of Kenya (GoK) share from: “Redacted Joint Review to Quantify Ineligible Expenditures for the Seven Districts and Headquarters of the Arid Lands Resource Management Program Phase II (ALRMP II) for FY07 & FY08” (18 November 2011), Appendix 2, page 8; budget totals from: “Forensic Audit Report: Arid Lands Resource Management Project - Phase II, Redacted Report,” (July 2011), World Bank Integrity Vice Presidency (INT), Table 1, Page 19.

68 Joint Review to Quantify Ineligible Expenditures, INT and IAD, 18 November 2011, Page 5

To calculate the percentage of total funds ruled by INT and IAD as ineligible in Table 4, one should ideally subtract the total GoK funds from the denominator (total ALRMP budget by category), but INT does not report the total amount of the budget by district that was contributed by the GoK and not suspected. Consequently, the percentages of ineligible funds by district reported in Table 4 are slightly lower than would be the case if the GoK funds that were not deemed suspicious were known, and also subtracted from the budget figures in column 1. Even with the known underestimate that we report here, we find that 45 percent of overall funds, and 50 percent of World Bank funds allocated to the districts, are declared ineligible and have to be repaid.

There is one other issue that bears upon the audit findings. In the original INT audit, the auditors followed standard auditing practice (i.e. accepted procedures), and when they found the first irregularity in a transaction sufficient to declare it suspected fraudulent or questionable, the transaction was classified as such, and they moved on. They did not continue to examine the many other pieces of that transaction that may also have presented evidence of fraud. When INT did their joint exercise with IAD, they examined only the original issue that qualified the transaction as suspected fraudulent or

questionable. Consequently, if project management had in the interim provided new documentation to satisfy INT and IAD on the original suspicious portion of the transaction, the auditors (due to restraints on time needed to follow through) now accepted the entire transaction as eligible.<sup>69</sup> A complete review might have unearthed other suspected fraudulent elements in the same transaction, and thus increased the total amount of ineligible expenditures.

The joint INT/IAD report also notes that it was agreed that IAD would work with the World Bank in drawing up a Terms of Reference for an expanded audit to cover the remaining 21 districts of the project<sup>70</sup>, and IAD would assist in the implementation of this audit with INT.<sup>71</sup> As of the publication date of this report, no expanded audit of the remaining 21 districts of the project has begun.

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69 Page 4, *ibid.*

70 Not done at time of writing.

71 Page 5, *ibid.*

## 4. GOVERNMENT RESPONSE TO THE ARID LANDS AUDIT

### 4.1 Government response to the INT report

The World Bank forwarded the original draft of the INT audit findings to the GoK on 14 April 2011, and received a response from the Permanent Secretary (PS), Ministry of Finance/Treasury, Joseph Kinyua, dated 23 June 2011. INT's follow up response to the PS's comments were published in the INT report on 15 July 2011, along with Kinyua's own letter. Below are the main points raised by Mr Kinyua, who had also consulted with the Ministry of State for Development of Northern Kenya and Other Arid Lands (MNKOAL), under whose ministry the project fell. The following paragraphs present the GoK response followed by INT's response and AfriCOG's comments.

- **Preliminary nature of the report** In his letter of 23 June, the PS repeatedly refers to the INT report as preliminary and incomplete.
  - **INT's response:** "INT would like to confirm that the findings in the Report are only preliminary to the extent that an appropriate enforcement agency needs to complete the relevant enquiries to determine whether sufficient evidence suggests that fraud occurred. INT's findings are not provisional and in INT's view the transactions identified as SFE (suspected fraudulent expenditures) contain sufficient indicia of fraud to enable a formal referral to be

made."<sup>72</sup> "INT does not consider its findings to be provisional, and has satisfied itself that the onus should be placed back on project officials to respond to these issues in accordance with Kenyan law."<sup>73</sup>

- **AfriCOG comment:** INT is asserting that their July 15, 2011 audit report is complete. Based on this report, INT did make a formal referral of the suspected fraudulent transactions to KACC on August 31, 2011. It is not the role of auditors to determine criminal guilt, as only a court of law can do that. But a formal referral by a forensic accountant indicates that they believe there is sufficient evidence to warrant criminal investigation.
- **Sharing of relevant information** The PS faulted INT for failure to share information.
  - **INT responds** that as of the report date, they had shared the following additional information with the GoK<sup>74</sup>:
    - 20 June 2011, INT supplied IAD with detailed schedules of the 3,257 'questionable' transactions

<sup>72</sup> Forensic Audit Report of the World Bank into the ALRMP II, July 2011, Page 62.

<sup>73</sup> Page 63, *ibid.*

<sup>74</sup> Page 62, *ibid.*

- 20 June and 22 June 2011, INT supplied IAD with electronic images of all documents supplied to INT by the project
  - 21 June and 22 June 2011, INT and IAD supplied ALRMP's project office with copies of the scanned images.
- **AfriCOG comment:** While INT shared the detailed schedules of the 3,257 suspected fraudulent and questionable expenditures with IAD and KACC, it would appear that they did not share them with the project. While there is an ongoing investigation of these potentially criminal acts, it makes sense that the forensic accountants and the criminal investigators would not wish to share all of their evidence with the possible suspects.
- **Understanding of GoK policy** The PS alleges that INT found fault with some transactions because INT did not properly understand GoK regulations and policies.
    - **INT's response:** The Washington-based INT team employed Kenyan certified chartered accountants with significant Kenyan experience to assist them. INT also relied upon their local World Bank financial management specialist for advice, and INT did their own research on GoK regulations and obtained further information from project staff, suppliers, and World Bank team task leader staff to confirm project practices.<sup>75</sup>
    - **AfriCOG comment:** Given that the joint INT/IAD report later confirmed 2,907 transactions as ineligible, versus INT's original number of 3,186 (excluding the GoK funds), it does not appear likely that a misunderstanding of GoK policy had any material impact upon

<sup>75</sup> Page 62, *ibid.*

the INT audit. We presume that Kenya's IAD understands GoK regulations and policies.

- **Prior discussions** The PS faults INT for failing to discuss its findings with GoK officials in the project or the line ministry before reaching the conclusions reported.
  - **INT response:** "INT did discuss its preliminary findings with ALRMP project staff during the course of the audit. As set out in the Report, INT conducted interviews and obtained documentary evidence before forming views in regard to the transactions it reviewed. INT also gave DMOs from each of the sampled districts an opportunity to respond and provide further explanations for the transactions."<sup>76</sup>
  - **AfriCOG comment:** In Section 3.5 above, we highlight specific ways in which the project appears to have hindered cooperation with INT.
- **No publicity** PS Kinyua requested that INT should not publicise their report until the joint technical team completed its work and shared it with the GoK.<sup>77</sup>
  - **AfriCOG comment:** In accordance with their disclosure policies, INT published their report on 15 July 2011. We applaud INT for their commitment to transparency, and for making their findings available to the citizens of Kenya despite the efforts of the GoK to suppress the findings.

<sup>76</sup> Page 63, *ibid.*

<sup>77</sup> Page 65, *ibid.*

## 4.2 The GoK response in Parliament to questions about misappropriation of ALRMP funds

On 6 March 2012, the Hon. Mohamed Sirat (MP for Wajir South) raised a question in Parliament on ALRMP II, addressed to the Minister of Development for Northern Kenya and Other Arid Lands.<sup>78</sup> He was inquiring about reports of misappropriation of funds in the ALRMP II, and Cabinet Minister Mohamed Elmi responded. This exchange took place after both the original INT audit report and the joint review by INT/IAD had been made public on the World Bank website.

Hon. Sirat's question had three parts: a) Was the minister aware that money was misappropriated by ALRMP, and if so, the amount misappropriated, and from which districts? b) Could the minister provide details of all stalled projects as a result of the misappropriation? c) Could the minister confirm whether misappropriation of funds by ALRMP had negatively affected the image and relations between the country and development partners.

Minister Elmi's response in Parliament on 6 March 2012 is worth quoting in detail:<sup>79</sup>

*Minister Elmi: "(a) I am not aware of any money that has been misappropriated by Arid Lands Resource Management Project (ALRMP). However, I am aware that the Department of Institutional Integrity (INT) of the World Bank has been conducting an audit into the project. It inspected 28,000 documents of expenditure incurred in the financial years 2006/2007 and 2007/2008 in seven sampled counties of Wajir, Garissa, Tana River, Isiolo, Samburu, Kajjado,*

*Nyeri and at the headquarters. The INT originally claimed verbally that 70 per cent of the project expenditure was ineligible. That led to the informal suspension of that project in August 2010. When INT eventually submitted its draft report in April 2011, two years after the audit had begun, that figure reduced to 29 per cent. Through a process of validation, INT's findings were agreed jointly between the bank and the Government of Kenya. The internal audit established that that figure is now less than 4 per cent.*

*...Sir, as of today, neither INT nor any other party has found concrete evidence that funds have been misappropriated. As the INT Report states on page 6 and, I quote: 'The audit does not prove that embezzlement occurred.'*

*(b) No misappropriation has taken place or it is yet to be established. Therefore, no project has stalled as a result. The ALRMP closed in December, 2010. All the microprojects were completed. An implementation completion report has been sent to the Government of Kenya and the World Bank, and it is rated very highly.*

*(c) I restate that no misappropriation of funds has yet been established. My ministry has engaged with key development partners throughout the audit process, and they are aware of the situation. Nevertheless, they have found ways to continue funding. So, no funding has been stopped as a result of this particular audit. Thank you, Mr. Speaker, Sir."*

There was little other discussion surrounding the above response mainly because MPs lack access to adequate information about the ALRMP, and they would therefore have no way of effectively challenging Minister Elmi's characterization of the situation.

<sup>78</sup> Hansard, National Assembly, Tuesday, 6th March, 2012, Question No. 1155, Page 13.

<sup>79</sup> Hansard, National Assembly, Tuesday, 6th March, 2012, Question No. 1155, Page 13-16.

### 4.3 AfriCOG’s comments on the Parliamentary discussion of ALRMP II

Minister Elmi’s response to part (a) of the question relates to the percentage of suspicious expenditures in the project identified by INT in their original report. The 29 percent figure that the minister refers to as the INT number is taken from the executive summary of the INT report, and its derivation is explained above in footnote 9. It is considerably lower than the number we see in Table 2 (62 percent), because it is deflated by the entire project’s payroll (in the denominator). As already noted above, INT was not able to properly audit the payroll, nor did they audit the remaining 21 districts; consequently, the payroll portion of the budget has appropriately been removed from all of the tables reported herein, just as it was removed from Table 4 of the original INT report, and from the analyses in the joint INT/IAD report. The INT report states that the average percentage of suspected fraudulent and questionable expenditures for the seven audited districts is 66 percent, and it is 62 percent overall if we include headquarters (see Tables 2 and 3 for sources). Notably, 66 and 62 percent are not far from the 70 percent figure that Minister Elmi says INT mentioned verbally to him in 2010.<sup>80</sup>

It is unclear how the minister arrived at four percent as the number from the joint INT/IAD report, which figures are, respectively, approximately 50 percent (for the districts) and 45 percent (for the districts and headquarters; see Table 4 above for sources). The joint INT/IAD numbers are less than the original INT percentages in part because they do not include the suspected fraudulent GoK expenditures of Ksh. 76 million that were included in the original INT figures (see Table 4 above). The minister’s declaration in Parliament that the joint INT/IAD report found only four percent of expenditures ineligible is a gross distortion by any reasonable calculation.

<sup>80</sup> Pg 13, Ibid.

In response to question (a), the minister maintains that no misappropriation of ALRMP funds has yet been established, and he quotes the audit report as saying that the audit “does not prove that embezzlement occurred.” The minister would have better served the public interest by quoting the entire sentence from which he extracted this quote. What the INT report says is, “While the audit does not prove that embezzlement occurred, it found that opportunities to embezzle cash from districts bank accounts existed in a number of ways – principally through the use of imprest accounts; but also via encashing cheques payable ostensibly to suppliers and the Commissioner of VAT. One district simply cashed cheques not recorded in the cashbook; another district used an ATM facility and drew funds equating to cheques written in the name of Commissioner of VAT (which were never subsequently presented)”. If the minister’s point is to establish that INT is not a law enforcement arm of the Kenyan government, he is, of course correct. INT has appropriately turned their findings over to the EACC for investigation, and it will fall to the Kenyan courts to prove and pass judgment upon the criminality of these findings.

In response to question (b), the minister correctly reports that the project closed in December 2010. He then turns the discussion away from the question at hand, which is financial misappropriation, and launches into a spirited defence of the project’s achievement. While this report is not evaluating the quality of the project, nor denying its possible benefits, we feel compelled to correct what we believe to be inaccurate reports of the World Bank’s own evaluation of its project. The minister refers to the Implementation Completion Report for the project, which at the time of writing, is still not publicly available, so AfriCOG cannot independently assess whether the minister’s characterisation that the project was “rated very highly” is accurate or not. However, on the World Bank’s website, one does find the “Implementation Status & Results” Report No. ISR1996 for Arid Lands Resource Management Project Phase Two (P078058). Under overall ratings, the project receives the following grades: Progress towards achievement of PDO [project

development objectives]: moderately unsatisfactory; Progress towards achievement of GEO [global environmental objectives]: unsatisfactory; Overall Implementation Progress (IP): unsatisfactory. In the Implementation Status Overview the comment reads as follows:

*“The project closed on December 31, 2010. Most key performance indicators show positive results of the project. The project encountered problems in financial management and record keeping. In light of these problems, a finding that objectives were met would require a high degree of confirming evidence in the M&E system. Monitoring and evaluation were weak, and not all indicators were measured. The evidence is therefore suggestive of positive outcomes, but not definitive, and for that reason the PDO [Project Development Objectives] is rated moderately unsatisfactory. Project activities were halted since July 2010, which led to low disbursement during the last 6 months of the project. The Government used own resources to maintain core structures and activities of the project.”<sup>81</sup>*

It is worth noting that 80 percent of World Bank projects receive grades of 5-6 (satisfactory or highly satisfactory), and such ratings have been increasing over time.<sup>82</sup> The grades received by ALRMP put it deep into the bottom 20 percent, as “moderately unsatisfactory” is a 3 on a 6 point scale, and “unsatisfactory” is a 2. High ratings (80 percent 5s and 6s) are partly explained by the fact that these grades are awarded by World Bank operations staff themselves, in other words, by the same people responsible for designing, running, and monitoring the

<sup>81</sup> “Implementation Status & Results” Report No. ISR1996 for Arid Lands Resource Management Project Phase Two (P078058)

<sup>82</sup> “Improving the World Bank’s Development Effectiveness: Does Evaluation Show?” World Bank Operations Evaluation Department, 2005

projects. Important to note is that the task team leader responsible for the project is the same person responsible for supervising the Implementation Completion Report that Minister Elmi cites. In contrast, the INT Vice-Presidency is the investigative component of the World Bank that sits quite independently of operations, and therefore does not share the same conflict of interest with respect to project evaluations. INT reports directly to the President of the World Bank.

In response to question (c), Minister Elmi appears to deny that the audit problems in ALRMP II have had any impact upon funding for the arid and semi-arid lands. However, two World Bank successor projects have been affected. KACCAL, which was funded by the World Bank in June 2010, and intended to be administered through Arid Lands, was promptly frozen, and remained so, at least as of Minister Elmi’s speech in Parliament. The most recent report online (March 31, 2011) shows no money expended from the project.<sup>83</sup> More consequentially, the long planned successor project to ALRMP II (Arid and Semi-Arid Lands Sector-Wide Program) that was due to seamlessly succeed ALRMP II in December 2010 and continue to fund Minister Elmi’s ministry, had a World Bank board date for approval already set for 23 November 2010.<sup>84</sup> That project included US\$ 100 million of World Bank funding and expected funding of US\$ 45 million from other donors. The project was terminated after the INT audit report, and it never went to the World Bank board. Minister Elmi’s remarks did not address whether the expected US\$ 45 million from the EU, DANIDA, (Danish International Development Agency) and DFID (the British Department of International Development) was affected by the cancellation of the World Bank project that was intended to serve as the umbrella through which those partner funds would be managed. He does indicate that some funding has come through, but he is not specific

<sup>83</sup> Implementation Status & Results: Kenya: Adaptation to Climate Change in Arid and Semi-Arid Lands (KACCAL) (P091979). Arid and Semi-Arid Lands Sector-Wide Program, Project Information Document (PID) Concept Stage, World Bank Report No.: AB5561

<sup>84</sup> Arid and Semi-Arid Lands Sector-Wide Program, Project Information Document (PID) Concept Stage, World Bank Report No.: AB5561.

regarding its source. Currently, the GoK is funding the National Drought Management Authority (NDMA) that was recently formed within Minister Elmi's ministry.

## 5. CONCLUSION AND RECOMMENDATIONS

While Kenyans are quite familiar with grand corruption in government, the lessons of ALRMP demonstrate that we must be even more vigilant in safeguarding funds destined for grassroots development. As the country begins the grand experiment with decentralised development, there are lessons to be learned from this ALRMP case study. Decentralisation will create greater challenges for financial management merely through the multiplication of units with poor book keeping skills and insufficient monitoring. As evidenced by this project, when accounting systems are lax, funds can leak in many directions, and though they may go out in small packages, they add up to grand amounts.

The Government of Kenya has an opportunity with this project to demonstrate to the nation that the theft of government resources destined for grassroots development in Kenya will not be tolerated. If those responsible for the fraud associated with ALRMP go unnamed and unpunished, what message does that send to those who may do the same with the new county funds? Let us send a message now, and begin to fight impunity for the sake of those at the grass roots.

We make the following recommendations based upon ALRMP audit:

- The EACC should act expeditiously to investigate the findings of the INT audit and the joint INT/IAD report. The INT audit report was submitted to KACC (now EACC) in August 2011, but to date there is no report on any action.

- The relevant parliamentary committee should consider the serious implications of possible collusion among project staff, government-owned banks, district accountants from Treasury, and the Kenya Revenue Authority. The findings warrant serious investigation and inquiries by Parliament.
- The government should move quickly to make good on its promise to audit the remaining 21 districts of the project. This commitment was made by INT and IAD in November 2011, yet the audit has not begun. Why? Who is holding it up? INT found systemic fraud everywhere it looked. There is every reason to believe that the same will be uncovered in the remaining districts. It is imperative that those responsible are identified and removed from public service (where they have the opportunity to steal public monies from our most vulnerable citizens).
- All of those implicated in fraudulent activities should be prosecuted to the full extent of the law. Further, the looted funds from the project, which Kenyan taxpayers are now required to repay, should be refunded to the taxpayers from assets recovered from the guilty parties.
- In light of the massive fraud and obvious incompetence with which the project was administered, current and former senior project officers of ALRMP II, whether implicated in

the corruption or not, should be evaluated for their leadership and administrative capabilities. This is important in view of the fact that some of them continue to hold public office in the same or other capacities. Chapter Six of the constitution is very clear on matters of integrity and leadership. In addition, those who did not provide documentation and therefore hampered investigations by the INT should be punished accordingly.

We make the following recommendations to help prevent repetition of the problems that have surfaced in three World Bank projects in recent years (ALRMP II, Western Kenya Community Driven Development and Flood Mitigation Project, and the 2006 KESSP):

- **Transparency:** All donor and government development projects should henceforth be required to put all project expenditures (with line item detail) on project websites. Procurement, tendering, and staff hiring should be advertised and reported on the website. Staff lists and qualifications should also be public.
- **Accountability:** The poor quality of project accounting in all these World Bank projects can only lead one to conclude that government systems of training, oversight, and audit, are not up to the task. As we roll out the County system, one can expect greater strains on the talent pool and the monitoring and evaluation systems. Expansion and increased professionalisation of these civil services is urgent.

- **Asset declaration:** It is time for Kenya to get serious about asset declaration among high-level civil servants. Such declarations should be comprehensive (to minimise hidden assets), and should be made public, with the opportunity for citizen monitoring and reporting. Publication is the only way to create effective monitoring. Asset declaration can be an especially effective form of monitoring in non-urban communities, where people often know how many houses, farms, businesses, and vehicles a civil servant owns.
- **Complaints:** All projects should maintain an active complaints blog. In the case of donor-funded projects, such complaints should automatically be copied back to the donor organisation. For both donor and GoK projects, complaints should be cross-routed to an independent body, such as EACC and/or Parliament, where they can later be retrieved without interference, should an investigation be warranted.
- **Vetting:** Several senior officers from the Arid Lands project were appointed to important national offices after the INT audit findings were already in the public domain. While some of the vetting procedures were criticised at the time, the voices of dissent did not succeed in allowing a full airing of the records. Kenya must do better, and this case study amply demonstrates why.

# ANNEX

## THE MAIN PLAYERS

**Uhuru Kenyatta** was the Deputy Prime Minister and Minister of Finance during the ALRMP II period being reviewed, and Treasury is the counterpart ministry through which the World Bank operates. Kenyatta was still the finance minister when INT first delivered its draft report to the Ministry of Finance for comment in April 2011, and he was also the minister who officially received the final INT audit report that was published on 15 July 2011. Uhuru Kenyatta has since left the ministry.

**Joseph Kinyua** has been the long serving PS Finance. Having been the accounting officer of the ministry since 2004, his tenure goes back almost to the beginning of the ALRMP II in 2003. He was therefore a key player in the preparation of the project documents and the signing of the agreement with the World Bank for additional funding in 2006. He also submitted the GoK request on 3 March 2009 that the ALRMP be continued for a third phase.<sup>85</sup>

**Mohammed Elmi** is the minister in charge of the Ministry of Northern Kenya and Other Arid Lands, the line ministry for ALRMP II since 2008. Prior to 2008, which includes most of the period audited by INT, ALRMP II was under the Office of the President. Minister

Elmi's tenure did not overlap more than a couple of months with the audited period of the project. His tenure does cover the entire period from the beginning of the INT audit process in April 2009, through the closing of the project in December 2010, and the various negotiations back and forth between the GoK, INT, IAD, and the Ministry of Finance. In March 2012, Members of Parliament demanded to know who was responsible for the misappropriation of ALRMP funds, and what actions the minister had taken. In his response to Parliament on March 6, 2012, the minister denied that there was evidence of misappropriation of funds in the project.

**Rachel Arunga** was the PS in the Ministry of Special Programmes, which was the line ministry for ALRMP II before the project was transferred to the Ministry of Development for Northern Kenya and Other Arid Areas in April 2008. She was the PS responsible for the project during most of the period covered by the INT audit (FY06/07 and FY07/08). It was also under her tenure in 2007 that the ALRMP management was directed by Washington to conduct an investigation of corruption into the CDD component of the project in Tana River district. The project team produced a report that unearthed serious problems in the CDD component of the project.<sup>86</sup> As PS for special programmes, that CDD report should have been shared with PS Arunga.

<sup>85</sup> Letter from Joseph Kinyua, PS Ministry of Finance to Mr. Johannes Zutt, Country Director, World Bank – Kenya Country Office, 3 March, 2009.

<sup>86</sup> "Monitoring of CDD Implementation in Selected Communities of Tana River District Carried Out Between 16th – 20th March 2007, ALRMP II.

PS Arunga was transferred from the ministry when the coalition government was formed in 2008. In October 2008, she was appointed to the Public Service Commission of Kenya.<sup>87</sup> In that capacity, she chaired the panel that appointed members to the Commission on Administrative Justice (charged with taking over the Ombudsman functions of the former Public Complaints Standing Committee). That panel appointed Saadia Mohamed, former head of CDD at ALRMP (community development coordinator) to the new Commission on Administrative Justice. The process of appointing people to the Commission on Administrative Justice came under heavy criticism from the then Justice Minister, Mutula Kilonzo, for lack of vetting and transparency.<sup>88</sup>

**Mary Ngari** was appointed PS in the Ministry of Development for Northern Kenya and Other Arid Lands on March 11, 2008, and left the post in June 2010. Her tenure overlaps with the INT audit period by only a few months, but she had administrative oversight of ALRMP throughout the period when the INT audit was conducted and when the revelations of misappropriations were made public. Should the promised audit of the remaining 21 ALRMP districts go forward, it is likely that it will cover the later years of the project under PS Ngari's tenure.

Kenya Commercial Bank provided services to most ALRMP II districts. ALRMP also had its main account at Citibank, which appeared in their FMRs. INT discovered that ALRMP failed to disclose their accounts with KCB in their FMRs, and that balances reported as nil in the FMR reports, were actually substantial balances. The audit also questioned the credibility of statements issued by KCB in various districts, claiming that the statements had been altered by the bank staff. INT also found evidence of altered cheques that were cleared by KCB branches, and noted a lack of cooperation from the branches in making available copies of cleared cheques.

<sup>87</sup> Gazette Notice No. 10324, 31 October, 2008

<sup>88</sup> "Kenya: Controversy Dogs Process to Appoint Ombudsman," Daily Nation, 15 October 2011.

The auditors suspected collusion between the project and some bank staff.

Consolidated Bank of Kenya provided banking services to one of the audited districts, Isiolo. The accounts operated in this bank were also not disclosed in the FMRs. The audit raised possibilities of collusion between the project and Consolidated Bank staff.

**Fatuma Abdikadir** had been with the Arid Lands project since the precursor project in the early 1990s. She took over from Mahboub Maalim as the national project coordinator in mid-2004, and remained in that post until the close of the project in December 2010. She was in charge of the project for most of the period of ALRMP II, and held AIE responsibilities. The INT audit questioned 43 percent of the audited headquarters' expenditures as suspected fraudulent and questionable expenditures, and 26 percent of headquarters' expenses were ruled ineligible in the joint INT/IAD review. The entire ALRMP that Abdikadir oversaw had 62 percent suspect transactions (including those paid for by GoK, as per the INT original audit). In their joint review, INT and Kenyan IAD examined only that portion of the irregular expenses that derived from World Bank funds, and they jointly ruled that 45 percent of those audited were ineligible. As earlier stated this ruling requires that Kenya repay the World Bank Ksh. 340 million for this two year period, of which Abdikadir was in charge. After ALRMP closed in December 2010, Fatuma Abdikadir was appointed to the Commission on Revenue Allocation (CRA) on 30 December 2010, and elected its vice chairperson. CRA oversees the sharing of national revenue across the 47 counties under the devolved system of government. The CRA is also mandated to make recommendations to Parliament on any bill appropriating money from Equalisation Fund<sup>89</sup> for the marginal areas of Kenya, many of which, ironically, are the same districts served by the ALRMP project that Abdikadir oversaw.

<sup>89</sup> Section 10 (1) (a) Commission on Revenue Allocation Act, 2011

**Ruth Gathii** was the project's finance and administration coordinator, the second in command after the national project coordinator. She had been seconded to the project from the Ministry of Finance since the 1990s. She was in charge of district operations with regard to finance and human resources, and in those capacities held AIE responsibilities. The INT audit faulted the project for poor financial management and record keeping in virtually all respects, and noted that the project failed to respond to some of their human resource questions regarding staff qualifications at the time of hiring. Ruth Gathii continues to hold the same post in the newly created NDMA under the Ministry of Northern Kenya and Other Arid Lands.

**Mahboub Maalim** was national project coordinator for ALRMP for the last half of phase I and for the first year of ALRMP II. He left in mid-2004, when Fatuma Abdikadir took over. In 2004 he became PS in the Ministry of Special Programmes, which was then the line ministry for ALRMP II, under the Office of the President. He left the Ministry of Special Programmes to become PS for the Ministry of Water just prior to the period audited by INT. He is now the executive secretary of the Intergovernmental Authority on Development (IGAD).

The district accountants The accounting structure of the project brought the district accountants from Treasury on board as co-signatories to the accounts, together with the heads of the district offices (DMOs). The audit noted many questionable financial transactions involving cheques, that were systemic across all districts and headquarters, together with a particularly high use of cash transactions in some districts. Consequently, INT suggests the possibility that there may have been collusion between the district accountants and project staff.

**Dr. Christine Cornelius** was the World Bank's ALRMP task team leader, and had been involved with the project since its inception in the early 1990s. Originally based in Nairobi, she moved to Washington D.C. during the

later years of the project. Her role was to ensure that the project abided by the terms of the loan agreement. Christine Cornelius took early retirement from the World Bank just prior to the freezing of project funding in July 2010.

**Saadia Mohamed's** title in ALRMP II was community development coordinator. She was part of senior management at the project's head office in Nairobi. Her role was to oversee the CDD component of the project, which the INT audit cited for 84 percent suspected fraudulent and questionable expenditures. Saadia Mohamed was appointed to the Commission on Administrative Justice in November 2011, four months after the INT audit was made public, and the same month that the findings of the joint INT/IAD audit were made public. PS Arunga, under whom ALRMP fell for most of the audit period, chaired the panel that selected members of the Commission. The Daily Nation newspaper (Kenyan) reported that, "Ms Arunga's panel has however come under intense criticism from Mr Kilonzo (then Minister of Justice), who says the process of recruiting members of the Commission on Administrative Justice was not open."<sup>90</sup> Despite having been with ALRMP II for much of her career, Saadia Mohamed's profile on the Commission's website does not mention her association with ALRMP or name any former position that she has held.<sup>91</sup>

**Abdirahman Abass's** title in ALRMP II was support to local development coordinator. He was part of senior management at the project's head office in Nairobi, and he was in charge of the support to local development component (SLD) of the project. The INT audit cited the SLD component of ALRMP for 88 percent overall suspected fraudulent and questionable expenditures. In

90 "Kenya: Controversy Dogs Process to Appoint Ombudsman," Daily Nation, 15 October 2011.

91 <http://www.ombudsman.go.ke/Members.aspx>

February 2011, following Fatuma Abdikadir's departure, Abass took over the duties of the former national project coordinator. The ALRMP II project had closed, but Abass managed the former staff of ALRMP as the offices and staff transitioned to GoK funding. He left that position in late 2011 before the National Drought Management Authority was launched.





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

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