

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL OPERATIONS

OF

KITUI COUNTY

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SPECIAL AUDIT REPORT ON THE OPERATIONS OF KITUI COUNTY GOVERNMENT AND THE DEFUNCT LOCAL AUTHORITIES FOR THE PERIOD 1 JANUARY 2013 TO 30 JUNE 2013

EXECUTIVE SUMMARY

1.0 Introduction

The Office of the Auditor-General has the mandate to audit and report on the accounts of the National and County Governments under Article 229 of the Constitution and Public Audit Act, 2003. Further, the County Government Act, 2012 Section 134(1) repealed the Local Government Act, Cap 265, effectively dissolving all the 175 Local Authorities and creating 47 County Governments.

1.2 According to Transition to Devolved Government Act, 2012, after the general election on 4 March 2013, the functions, assets, liabilities and staff of the former Local Authorities were to be taken over by the County Government. The former Local Authorities under Kitui County include; Kitui Municipal Council, County Council of Kitui, County Council of Mwingi and Town Council of Mwingi.

2.0 Audit Objectives

The objective of the special audit exercise was to ensure existence of a seamless transition process and proper systems for accountability of public resources before, during and after transition to County Governments.

The audit covered the following key areas:

- Cash and bank balances
- Current debtors and suppliers balances

- Motor vehicles and office equipment
- IPPD Payroll and establishment
- ICT and G-pay system
- Recurrent and development expenditure items
- Procurement and procurement procedures

3.0 Key Audit Findings

Kitui County Executive & County Assembly

3.1 Improper Handing Over/Taking Over from the Defunct Local Authorities

There was no proper handing over of the defunct Local Authorities assets and liabilities to the Transition Authority as required by the circular from the Ministry of Local Government dated 18th February, 2013. This hindered smooth transition and taking over by the County Government. The Transition Authority is advised to ensure that proper handing over by the former chief officers is done to enable the County Government ascertain opening balances for assets and liabilities for inclusion in the balance sheet.

3.2 Current Assets and Liabilities

(i) Cash and Bank Balances

A number of bank accounts operated by the former Councils were either not closed or were closed several months after the Local Authorities ceased operations as detailed in the main report under each defunct Authority. Also, no board of survey was constituted to establish the correct closing cash on hand and bank account balances for the defunct Local Authorities which would subsequently form the opening balances for the County Government. Cash books were also not ruled off in order to form a distinct boundary between the incoming authority and the

predecessor. The accounting officer should ensure that all bank accounts for the former Local Authorities are closed and the balances transferred to the County Revenue Account. The accounts maintained by the former Local Authorities should be reconciled to ascertain the closing balances.

(ii) Debtors/Receivables

Although, the former Councils prepared a statement of all debtors as at 28 February 2013, totaling Kshs.268,603,367, the County Government did not take over, confirm and record the same in its books. The Councils continued to collect revenue and bank the same in their bank accounts. In the circumstances, there was no clear cut-off point indicating the transactions in respect of debtors taken over and subsequent payments made thereof. The County Government should constitute a board of survey to carry out procedures to confirm completeness and accuracy of balances of debtors handed over by the Councils. Also, a debt collection policy should be developed to facilitate recoveries.

(iii) Creditors/ Payables

No records were maintained of creditors totaling Kshs.194,797,863 taken over from the previous local authorities or new creditors of the County Governments. Creditors' ledger detailing particulars such as name, services rendered, invoice date, amount payable among others should be maintained by the County Government. This will assist in eliminating fake creditors in future.

3.3 Fixed Assets

The former Local Authorities prepared a hand over report for non-current assets totaling Kshs.1,280,998,107 as at 28th February, 2013. However, there was no record of takeover by the County Government which was to have ownership and custody of the assets. All assets should be recorded in a register as to type, date of purchase, cost, and any other relevant details, and the same updated as and when new ones are procured.

3.4 Revenue Collection and Accounting

Due to delay in opening of the County Government Revenue Account, the former Councils continued collecting and banking revenues in their accounts and spending, contrary to the existing legislation. A total amount of Kshs.70,395,392 was collected by the defunct Local Authorities during the transition period. The County Government should take a stock of receipt books to ensure that all receipts books with the former Local Authorities are accounted for and the same reconciled with Local Authorities Integrated Financial Operations Management System (LAIFOMS).

3.5 Procurement of Goods and Services

(i) Non Compliance with Procurement Law and Regulations

The County Government procured various goods and services amounting to Kshs.14, 726,110 through restricted tendering, based on the use of a prequalified list obtained from another Government Agency, to request for quotations. The list was not made available for audit and the conditions set out on restricted tendering under Section 73(1) of the Public Procurement and Disposal Act, 2005 were not met. Also, goods and services were paid for before delivery while in some instances; orders were being split contrary to the procurement law.

(ii) Collusion on Procuring Goods and Services

Cases were noted where some suppliers of various goods and services shared contact details, an indication that the companies were related to each other. This is illegal and fraudulent. Procurement of goods and services should be done in accordance with the Public Procurement and Disposal Act, 2005 and related regulations.

3.6 Payments

(i) Payment of Allowances

The County Government paid meal allowances totaling Kshs.1,993,000 to its officers on diverse dates but the period, number of days and rates of the allowances being paid were not indicated. Such payments should in future be paid in line with existing financial regulations and procedures.

(ii) Un-accounted for Fuel

The Council/County Government made advance payment amounting to Kshs.889,100 on 16/05/2013 to Kitui Total Petrol for fuel drawn by its motor vehicles. However, statement of fuel drawn and work-tickets of motor vehicles fueled were not attached to the work ticket to support the payment as the regulations require. Payment vouchers for fuel used by the County should be supported with vehicle work tickets, statements of fuel drawn and appropriate invoice(s).

3.7 IT Control Environment

Assessment of how the County has put in place structures to govern and manage the information systems in place revealed the following:

Management of IT Operations

The County Government is yet to develop key ICT documents necessary for efficient and effective management of IT operations which include, ICT policies and procedures; Network Diagram; Business Continuity and Disaster Recovery Plans.

IT Organization Structure

The County IT department has five (5) personnel who apparently do not have defined roles and responsibilities on how to oversee the IT operations. Hence there is no clear segregation of duties.

Staff Training on Applications

Twenty (20) officers of the County have been formally trained on IFMIS at their offices. However, only ten (10) staff have rights to access two modules of the system i.e. Plan to Budget and Procure to Pay.

IT Budget

The County has an allocation of Kshs.125,000,000 for ICT in the budget. No detailed breakdown on how the budgeted money will be spent was indicated.

Hardware

Computers and Accessories

The County had received nineteen (19) computers, fifteen (15) special Orange CDMA modems and one scanner from the National Treasury (IFMIS Department) to be solely used for IFMIS. The Interim ICT Manager has not been able to carry out an assessment of the ICT status and infrastructure of the County. There was no ICT register maintained at the County.

Data Centre

The County has four (4) data centers (server rooms) previously used for LAIFOMS. A physical inspection of the County data centers at the former County Council of Kitui and former Municipal Council of Kitui indicated that it does not have adequate physical and environmental controls. Some of the controls lacking include, smoke detectors and fire extinguishers. The situation was the same in Mwingi Town Council and County Council of Mwingi although the latter two did not have air conditioning.

Network Connectivity

There is no established Wide Area Network at the County to connect the various Sub-County offices. There is a Local Area Network at the Tanathi (Headquarters) and at former Municipal Council of Kitui offices, former Mwingi Town Council, former County Council of Mwingi. However, it does not interlink the systems and applications in place.

Software

IFMIS

IFMIS has been installed in the County with only budgeting module operational. The County uses Orange CDMA Modems to connect to IFMIS through the Treasury's Virtual Private Network (VPN). The Orange connectivity is poor due to poor and unstable network signals. Currently, all payments are done manually by use of cheques.

G-PAY

The County had received one computer from The National Treasury dedicated for G-Pay. Training for G-Pay had been undertaken for one (1) officer, who has been

transferred and no other officer had been trained to operate the system as at the time of audit in September 2013.

IPPD

The County has fully installed the IPPD system and the payroll for June 2013 was processed using the system. One (1) trained user operates the system. Analysis of the complement and payroll revealed that two (2) officers have invalid and inaccurate tax PINs.

Defunct Municipal Council of Kitui

3.8 Improper Handing over to the County Government

There was no proper handing over of the former Municipal Council of Kitui assets and liabilities to the Transition Authority as required by the circular issued by Ministry of Local Government in February, 2013. Consequently, the County Government could not have a basis of opening balances to be reflected in its books of account. The Transition Authority should ensure that proper handing over by the former chief officers of the Municipal Council is done to enable the County have accurate records of assets and liabilities inherited from the former Council.

3.9 Current Assets and Liabilities

(i) Cash and Bank Balances

Failure to close Bank Accounts

All the eight (8) bank accounts operated by the Municipal Council were not closed within the stipulated timeline. The accounting officer should ensure that all accounts are closed and balances thereof transferred to the County Revenue Account.

(ii) Debtors

Debtors balance of Kshs.55,139,957 as per the handing over memorandum includes rent and rates amounting to Kshs.46,068,235 which differed with the LAIFOMS balance of Kshs.81,609,241 by Kshs.35,541,006. An amount of Kshs.155,620 relating to staff advances as at 28 Feb 2013 differs with Kshs.46,840 reflected in Council records by Kshs.108,780. This renders reliability of the balances doubtful. Accurate and updated debtor's records should be maintained to facilitate debt collection and increase revenue for the County.

(iii) Creditors

- (a) The Council's statement of assets and liabilities as at 28 February 2013 reflected creditors balance of Kshs.59,250,221, which included a balance of Kshs.1,117,081 payable to a Contractor. However, as at the date of the handing over memorandum, the contractor had not performed any work for the Council.
- (b) The figure also includes loans totaling to Kshs.33,755,695 payable to National Housing Corporation (NHC) (Kshs.21,400,947) and LGLA (Kshs.12,354,748) which could not be confirmed since the Council did not provide loan agreements and loan register.
- (c) The Council did not provide particulars of outstanding statutory deductions amounting to Kshs.3,884,672, while amount of Kshs.510,358 payable to a firm of Advocates had no supporting fee notes.

This could lead to taking over and subsequent payment of non-existing creditors by the County Government. All creditors taken over by the County Government should be verified to ascertain their authenticity before commencing payment process.

3.10 Fixed Assets

The handing over report as at 28 February 2013 showed assets totaling to Kshs. 371,319,087, including a balance of Kshs.15,482,130 for movable assets. Although the Council revalued its assets in December 2012, the revalued values of movable assets amounting to Kshs.18,719,959 was not included in the handing over report, thereby understating the market value of movable assets by Kshs.3,237,829. All assets of the former Municipal Council should be recorded at fair values and secured by the County.

3.11 Revenue Collection

From 1 March to 30 April 2013, revenue collected by the Council and banked amounted to Kshs.15,884,714. However, long outstanding revenue receipt books were yet to be returned and accounted for as at the time of audit in September 2013, implying that revenue could still be collected using the defunct Councils receipt books but without any accountability. All revenue collected should be banked intact and promptly as required by the financial regulations. Proper accountability of revenue collection should be ensured.

3.12 Personnel Cost

Handing over report prepared by Municipal Council of Kitui listing names of employees to be handed over, included two officers who had been transferred out of the Council. Further, the Municipal Council was paying Kshs.153,000 per month as hardship allowance and a total of Kshs.612,000 had been paid as at 28th February, 2013 yet Kitui is not listed as a hardship area. The Council implemented the new Collective Bargaining Agreement (CBA) on February 2013, and enhanced salary and arrears amounting to Kshs.9,309,112 paid. The expenditure was not budgeted for and there was no supplementary budget approved for the increased

salary and arrears. It is important to note that only appropriated funds should be spent by the County.

3.13 Other Findings

(i) Payments made by Council/County against no Approved Budget

The Council made payments totaling Kshs.17,300,023 from GRF and LATF accounts between the months of March and June 2013. It was not possible to establish whether the expenditure was made in accordance with the approved budget as required by County Governments Public Finance Management Transition Act,2013 section 8(2) (c), as no evidence was made available to that effect.

(ii) Unsupported Additional Expenses on Projects

The bills of quantities for various projects included provisions for Engineers miscellaneous expenses against which a total of Kshs.724,130 had been paid as at the time of audit. The payment vouchers verified did not reflect the nature of expenses covering this particular item.

(iii) Irregular Award of Tenders

a) Construction of Town Toilet

The Council awarded a contract at a cost of Kshs.987,431 through quotations to a Contractor to construct a town toilet at the Council's offices, while procurement regulations thresh hold for quotations for such works is Kshs.500,000. The procurement should therefore have been done through open tender.

b) Supply of Building Materials and Computer Accessories

The Council during the year awarded a general tender for supply of building materials and computers accessories to two firms from which goods costing a total of 2,852,111 were directly purchased. This limited competition and therefore denied the Council value for money. Further, no evidence was made available to confirm that the building materials and computer accessories were inspected and accepted by an Inspection and Acceptance Committee as required by the Public Procurement and Disposal Regulations, 2006.

c) Supply of Tyres for Tractor

The Council procured tyres for a tractor at a cost of Kshs.300,000 after floating three quotations. No list of pre-qualified suppliers for tyres for 2012/2013 was seen. It was therefore not possible to establish how the three suppliers were identified for the services. In addition, no evidence was made available to confirm that the tyres were fitted on the tractor.

d) Community Based Projects

The Council implemented some five projects through community based approach during which building materials costing a total of Kshs.3,047,450 were supplied but no evidence that the goods were subjected to inspection by an Inspection and Acceptance Committee was seen. The Council could have been supplied with sub-standard goods and therefore not realizing value for money from the expenditure. Goods, works or services should be procured in accordance with the Public Procurement and Disposal Act, 2005 and related 2006 regulations.

Defunct County Council of Kitui

3.14 Improper Handing over to the County Government

There was no proper handing over of the former County Council of Kitui assets and liabilities to the Transition Authority as required by the Ministry of Local Government circular. Although the former Clerk to the Council prepared a statement of assets and liabilities as at 28 February 2013, the handing over letter dated 28 March 2013 was only signed by the former Clerk to the Council. The Interim County Secretary taking over did not sign the letter, raising doubt on the authenticity and reliability of the handing over process. A proper taking over of the former Councils' assets and liabilities should be finalized since the balances should form the opening balances for the County Government records.

3.15 Current Assets and Liabilities

(i) Cash and Bank Balances

(a) Non-Preparation of Monthly Bank Reconciliation Statements

The Council did not prepare monthly bank reconciliation statements for its various accounts namely; Kazi Kwa Vijana, Poverty Reduction and some four LATF accounts maintained at various banks. Further, bank reconciliation statements prepared were inaccurate and some included stale cheques, unexplained under-debits and over-debits, rendering accuracy of the reconciliation statements doubtful. This is contrary to financial regulations and procedures which require that accurate bank reconciliations statements are prepared on a monthly basis.

(b) Non-Closure of Bank Accounts

The County Council failed to close bank accounts and to transfer the balances to the County revenue account opened with Kenya Commercial Bank (KCB), contrary to instructions given by the Government. Evidence of subsequent closure of the accounts should be made available for audit confirmation, including the balances transferred to County Revenue Account.

(c) Board of Survey for Cash and Bank Balances

The Council did not constitute a board of survey to establish the correct cash on hand and bank balances as at 28 February, 2013 to be handed over to the County Government. The cashbooks were not ruled off so as to establish the correct closing balances for the Local Authority and opening balances for the County Government. Also, the Council did not indicate the amount of cash and bank balances (part of assets) to be handed over to the County Government.

(d) Missing Bank Statements

Some seven bank statements relating to various accounts were not made available for audit. Consequently, it was not possible to confirm the transactions and the closing balances as at 28 February 2013, or the date the accounts were closed. Proper systems should be put in place to ensure safe custody of documents.

(ii) Debtors

The Councils' handing over report reflected debtors amounting to Kshs.158,096,600 but the list was not supported with schedules of individual debtors. The figure also included Kshs.54,729,894 in respect to Contribution in Lieu of Rates and house rent which were not supported or reconciled with debtors statements. Further, imprests amounting to Kshs.4,982,555 had not been

surrendered or accounted for as at 30 June 2013. Proper systems and measures should be put in place to facilitate recording and collection of outstanding debts.

(iii) Creditors

- a) The statement of assets and liabilities as at 28 February 2013 reflected creditors' balance of Kshs.95,675,676 handed over to the County Government, and included a figure of Kshs.59,341,951 not supported with documents like invoices, demand notes or fee notes, and also not recorded in the creditor's ledger. Also, bursaries amounting to Kshs.3,459,500 reflected as creditors were not supported, while details for a balance of Kshs.694,000 indicated as owed to County Council of Kitui were not made available for audit review.
- b) The statement as at 28th February 2013 reflected Kshs.10,980,000 as due to a firm of Advocates. Fee notes made available for audit indicated a figure totaling Kshs.1,741,000, while creditor's ledger did not contain details of transactions with the firm.
- c) Another firm of Advocates was reflected in the statement as being owed Kshs.6,535,420 although no fee note was made available for audit confirmation. The Council paid the firm an amount of Kshs.2,000,000 on 7/3/2013.
- d) The Council also indicated another firm of Advocates as being owed legal fees amounting to Kshs.15,090,894 as at 28th February, 2013 while no supporting fee notes were made available for confirmation of services rendered.

In all the above cases, the County Government should not make any payment without a confirmation that services were rendered to the Council. In cases where

payments have been made, these should be investigated and action taken to recover funds paid without services having been rendered. Also, creditors still unpaid should be circularized to ascertain validity and correctness of the balances outstanding.

3.16 Fixed Assets

Although the financial regulations required that County Council assets are coded, recorded and an inventory maintained indicating location of all movable assets for ease of identification, no proper records were kept for Council assets. Also, the Council did not revalue its assets to establish the fair values to be handed over. Further, the list of items to be handed over included four (4) motor vehicles and a grader whose values were reading nil. Also, three former employees of the Council did not hand over three laptops and three ipads they had been issued with while still at the Council. A policy on handling County assets should be put in place to ensure safe custody and to address loss through theft or misuse.

3.17 Revenue Collection

Revenue collected and banked in Salaries and General Rate Fund Accounts between 1 March to 30 April 2013 amounted to Kshs.22,150,498. Further, no cut-off procedures indicating revenue receipt books handed over and the point where the County started collecting revenue was done. This could lead to loss of receipt books which may be used by unscrupulous employees to collect revenue illegally. Proper custody of accountable documents and strong internal control systems should be enforced to prevent possible loss of revenue.

3.18 Personnel Costs

The County Council implemented the new Collective Bargaining Agreement (CBA) in February 2013, although salary increment occasioned by the implementation was not included in the 2012/2013 budget estimates. In addition, there was no approved supplementary budget authorizing the expenditure, although the law requires that only appropriated funds should be committed and spent.

3.19 Other Findings

(i) Expenditure

The Council made payments totaling Kshs.17,039,940 from LATF and GRF Accounts through Electronic Funds Transfers in the months of January, February and March, 2013. However, supporting payment documents were not made available for audit review. This is contrary to financial regulations and procedures which require full documentation of all expenditures made by an entity.

(ii) Cash Purchases

A total amount of Kshs.1,186,700 was spent in May, 2013 in respect of furniture and stationary for the Governor and Deputy Governor's offices vide three cheques written in the name of the payment cashier, implying that the purchase was done on cash basis, against the procurement law. The documents supporting these purchases were not made available for audit review.

(iii) Irregular Payment of Legal Fees

A total of Kshs.10,786,301 paid to a firm of advocates in February 2013 was not supported with fee notes as evidence of services rendered and for confirmation of propriety of the expenditure. However, no expenditure should be incurred unless properly supported.

Defunct County Council of Mwingi

3.20 Improper Handing Over to the County Government

There was no proper handing over of the former County Council of Mwingi assets and liabilities to the Transition Authority as required by Ministry of Local Government circular. Also, the handing-over and taking-over report did not include the Council's cash and bank balances as at 28th February, 2013. The Transition Authority should ensure that proper handing over by the former chief officers is done without further delay. This will enable the County Government have opening balances to be reflected in its books of account.

3.21 Current Assets and Liabilities

(i) Cash and Bank Balances

(a) Failure to Prepare Bank Reconciliation Statements

The Council did not prepare monthly bank reconciliation statements for LATF, Kenya Roads Board and Renewal Fund bank accounts for the period 1st January to 30 June, 2013.

(b) Accuracy of Monthly Bank Reconciliations

Bank reconciliation statements for Salaries and GRF Accounts held at Equity Bank Mwingi Branch presented for audit were inaccurate. Reconciliations for Salaries account contained two stale Cheques for January 2012 of Kshs.1,925,645 while GRF account reconciliation contains eight (8) stale Cheques totaling to Kshs.82,400 which had not been written back into the cash books. Accuracy and completeness of the cashbooks balances could not be established. Bank reconciliation statements are important in confirming accuracy and completeness of transactions made through the bank accounts.

(c) Closure of Bank Accounts

The County Council of Mwingi operated eight (8) bank accounts out of which only one had been closed and funds transferred to County Revenue Account. Four (4) of the accounts held at KCB had no supporting bank statements, while the remaining three (3) had no evidence of closure of the accounts. All bank accounts should be closed and the balances thereof transferred to County Revenue Account.

(d) Failure to Constitute Board of Survey

The Council did not constitute a board of survey to establish the correct cash on hand and bank balances as at 28 February 2013. During the transition period, the cash book was not ruled off to demarcate the boundary between the outgoing and incoming entity. A board of survey should be constituted at the end of each year to establish the correct bank balances to be transferred to the County Revenue Account.

(ii) Debtors Balances

The Council handed over debtors amounting to Kshs.41,755,731 made up of CILOR (Kshs.4,235,138), Rates from Kiambere (Kshs.2,510,755) and Plot Rents (Kshs.35,009,838). No invoices or demand notes issued to plot or stall owners were made available for confirmation of accuracy of the balances. Also, the Council did not maintain an updated debtors ledger to record movements within the year. The County Government to maintain up-to date records of debtors and ensure that measures are put in place to collect revenue from the outstanding debtors.

(iii) Creditors

- a) The statement of assets and liabilities as at 28 February 2013 reflected creditors' balance of Kshs.30,743,583 to be handed over to the County Government. The Council did not maintain an updated creditor's ledger to record transactions neither did the Council circularize the creditors for independent third party confirmation of the balances.
- b) The creditors' balance includes Kshs.30,000,000 relating to a loan borrowed by the Council from Kenya Commercial Bank (KCB). Correctness and validity of the balance could not be confirmed due to missing loan agreements, ledgers and other records. The loan also forms a basis of a legal case still pending at the High Court in Machakos. The County Government should maintain up-to date records of creditors with relevant supporting documents. Also, no Creditors should be paid without properly establishing that a service/good was rendered or delivered to the Council.

3.22 Fixed Assets

The Council listed in the memorandum of handing over assets amounting to Kshs.114,330,162. The balance appears understated since several movable assets had no associated monetary values. The Council carried out revaluation of assets in December 2012, but no comprehensive record of Council assets was maintained. Also, ownership documents for some five (5) motor vehicles under the Council's custody were not made available for audit verification. All assets of the former Council should be properly recorded and put under safe custody.

3.23 Revenue Collection

The County Council continued collecting revenue after the deadline of 28 February 2013 and banking in its Salaries and General Rate Fund Accounts both held with Equity bank. The revenue collected and banked in these accounts as from 1 March

to 30 April 2013 amounted to Kshs.6,570,892. This was contrary to the requirement that all revenue collected after the transition period be banked intact into the County Revenue Account.

3.24 Other Findings

(i) Payments made by Council/County against no Approved Budget

The Council made payments totaling to Kshs.39,259,996 from GRF, Salaries and LATF Accounts after 28 February 2013 which was the cut-off date. However, no approved budget was seen for this expenditure. The County Treasury should ensure that all expenditure are accounted for and are as per the approved budgets.

(ii) Staff Payroll

The Council implemented the new Collective Bargaining Agreement (CBA) in February of 2013 and backdated salary payments to 1 September 2012. However, the salary increment occasioned by the new CBA was not budgeted for and there was no supplementary budget approved for the increased salary. The Council paid the salary arrears without deducting PAYE of Kshs.1,282,635. The County Government should ensure compliance with the law by deducting all taxes on incomes and remitting the same to the Commissioner of Domestic Taxes. Further, only appropriated funds should be spent by the County.

Defunct Town Council of Mwingi

3.25 Improper Handing Over to the County Government

The handing and taking over report prepared by the Town Council of Mwingi did not include cash and bank balances as at 28 February, 2013. The Transition Authority should have ensured a proper handing over by the former chief officers

to enable the County Government ascertain opening balances to be reflected in the books of account.

3.26 Current Assets and Liabilities

(i) Cash and Bank Balances

(a) Monthly Bank Reconciliations Statements

The Council did not prepare monthly bank reconciliation statements for Kenya Roads Board, Kazi Kwa Vijana and Operations and Maintenance Accounts for the months of January to 30 June, 2013. Monthly bank reconciliation statements for Salaries, LATF and GRF accounts reflected stale cheques totaling to Kshs.14,648,653 as at April, 2013 and which had not been written back into the cash books as at the time of audit in September 2013. All stale cheques should be written back in the cashbooks to await any claims being put up by the payees. Also, bank statements for the period April, May and June 2013 were not produced for audit review. Accurate bank reconciliations should be prepared to establish the correct cash and bank balances to be transferred to the County revenue fund account

(b) Failure to constitute cash board of survey

The Council did not constitute a board of survey to establish the correct cash and bank balances as at 28 February 2013. The Council also did not indicate the amount of cash and bank balances being handed over to the County Government. A board of survey should be constituted at the close of each year to ascertain correct cash and bank balances.

(ii) Debtors

The handing over memorandum reflected debtors' balance of Kshs.14, 769,194, which included outstanding imprests of Kshs.2,037,839 as at 28th February 2013. The figure excluded staff advances of Kshs.44,000 as at the same date, while the balance of Kshs.12,731,355 listed as rent arrears had no supporting details. Appropriate measures should be put in place to ensure prompt collection of revenue from outstanding debtors.

(iii) Creditors

The statement of assets and liabilities as at 28 February 2013 reflected creditors' balance of Kshs.18,378,113, which include Kshs.6,912,865 listed as contingent liability, Kshs.7,015,458 actuarial deficit payable to Laptrust but with no supporting records and Kshs.194,290 Legal fees with no fee notes. Other creditors totaling to Kshs.2,016,672 were excluded from the balance handed over to the County Government. Completeness and accuracy of the creditors should be confirmed before effecting payments, while they should also be fully supported with valid documents.

3.27 Fixed Assets

According to the handing over memorandum of 28th February, 2013, the Town Council of Mwingi had assets amounting to Kshs.80,844,882 which included an amount of Kshs.1,944,000 reflected under motor vehicles and motor cycles. The assets were confirmed but the handing over report was not signed by the taking over Authority. The County Government of Kitui should ensure that all assets of the former Town Council are properly recorded and put under safe custody.

3.28 Revenue Collection

Between 1 March to 30 April, 2013 the Council collected and banked revenue amounting to Kshs.15,789,788 in the General Rate Fund Account. The revenue was being collected by Transition Authority using receipt books of the former Council without officially taking-over the receipt books. This may have led to loss of funds due to lack of proper accountability of the receipt books taken over.

3.29 Procurement of Goods and Services

The Council procured receipt books at a cost of Kshs.360,000 on various dates through direct procurement, contrary to requirements of the procurement law. The public procurement procedures should be strictly followed during procurement of goods and services.

3.30 Expenditures

Payments made against no approved budget


The Council made payments totaling to Kshs.7,434,793 from Salaries and GRF accounts after 28 February 2013. However, it was not possible to establish whether the expenditure was made in accordance with approved budget as required by County Governments Public Finance Management Transition Act, 2013 section 8(2) (c). All expenditure incurred by the County should be accounted for and must be as per the approved estimates.

3.31 Conclusion

The foregoing observations clearly indicate that the process of taking over of assets and liabilities, including staff of the former Council was not properly handled due to apparent lack of leadership by officials of Transition Authority who had the responsibility to ensure a smooth and seamless transition process. The County Government should however ensure full control of functions, including revenue

collection, recording and proper accounting for the same while awaiting guidance from the National Treasury based on the accounting and reporting systems to be developed by the Public Sector Accounting Standards Board in accordance with Section 194 of the Public Finance Management Act, 2012.

Detailed audit findings are contained in the main audit report herewith appended.

A handwritten signature in dark ink, appearing to read 'E. O. Ouko', with a stylized flourish at the end.

Edward R. O. Ouko, CBS
AUDITOR-GENERAL

13 January 2014

DETAILED AUDIT REPORT ON OPERATIONS OF COUNTY GOVERNMENT OF KITUI AND DEFUNCT LOCAL AUTHORITIES FOR THE PERIOD 1 JANUARY TO 30 JUNE 2013

1.0 Introduction

This report covers the operations of County Government of Kitui comprising the Executive, the Assembly, the defunct Municipal Council of Kitui, County Council of Kitui, and defunct County Council and Town Council of Mwingi. These Local Authorities ceased operations with the enactment of the County Government Act, 2012 which repealed the Local Government Act, Cap 265.

2.0 Audit Objectives

The following were the main audit objectives:

- Confirm existence of proper accountability of cash and bank balances before, during and after transition to the County Government.
- Confirm that revenue and expenditure were recorded and properly accounted for before, during and after the transaction period.
- Confirm that operational debtors and creditors were accurately recorded and transferred from the defunct local authorities to County Government.
- Establish that assets taken over by the County Government are properly listed, owned, exists and are being used to provide services to the County Government.
- Ensure that assimilation of the defunct local authorities' staff with other County government staff is seamless and no ghost workers or irregular change of items have been imported in the New IPPD system.

- Ensure that the County Assembly and Executive Committee complies with the budget and that expenditures are properly charged to County Revenue Fund.
- Ensure that ICT system is not circumvented by manual system where IFMIS and G – Pay systems are fully implemented.
- Ensure that where manual systems are in use, proper accountability system is put in place and specific plans for system changeover exists.
- Confirm that procurement of goods and services is done in accordance with the Public Procurement and Disposal Act, 2005 and related 2006 regulations.

3.0 Key Audit Findings

Kitui County Executive and Assembly

3.1 Improper Handing Over/Taking Over from the Defunct Local Authorities

There was no proper handing over/ taking over of the defunct Local Authorities' assets and liabilities by the Transition Authority as required by Ministry of Local Government circular of 18th February, 2013. This is because the Transition Authority only directed the former Council's officials to only hand over official documents, assets and office equipment in their possession. To assist the County Government obtain correct closing balances of assets and liabilities transferred from the defunct Local Authorities, Transition Authority should ensure that proper handing over by the former chief officers is done as per the above circular.

3.2 Current Assets and Liabilities

(i) Cash and Bank Balances

During the period under review, the former Local Authorities operated several bank accounts. The Interim Principal Finance Officer wrote to the clerks of the former Councils vide letter dated 03 May 2013 referenced CGK/SCMU/ADM/Vol. I/ (07) , advising them to close the bank accounts and transfer the balances to the County Revenue Account held at Kenya Commercial Bank.

However, the following observations were made from the examination of the Council bank records to determine whether Section 28 of the County Governments Public Finance Management Transition Act, 2013 was complied with.

County Council of Mwingi

| | Bank | Account | Balance as per latest statement(Kshs.) |
|---|-------------|------------------|--|
| 1 | KCB | LATF | Balances as at 06 July 2013 Kshs.20,744,626.35. Kshs.20,742,426 transferred to County Government Current account on 24.07.13 |
| 2 | Equity | Salaries | Balance as at 13 June 2013 Kshs.2,335,272. No evidence of closure and transfer of funds to the revenue fund account. |
| 3 | Equity | GRF | Balance as at 13 June 2013 Kshs.1,005,248. No evidence of closure and transfer of funds to the revenue fund account. |
| 4 | Equity | LATF | Balance as at 22 May 2013 Kshs.53,565.85. No evidence of closure and transfer of funds to the revenue fund account. |
| 5 | KCB | Savings/Renewals | Details not available |

| | | | |
|---|-----|-----|-----------------------|
| 6 | KCB | KRB | Details not available |
| 7 | KCB | EU | Details not available |
| 8 | KCB | GRF | Details not available |

County Council of Kitui

| | Bank | Account | Comments |
|---|---------------|-------------------------------|---|
| 1 | Equity Bank | Local Authority Transfer Fund | Balance as per latest bank statement as at 31 March 2013 Kshs.1,044,997.15. No evidence of closure and transfer of funds to the revenue fund account. |
| 2 | National Bank | Local Authority Transfer Fund | |
| 3 | National Bank | Poverty Reduction | Balance as per latest bank statement as at 30 April 2013 Kshs.0.00 |
| 4 | National Bank | General Rate Fund | Balance as per latest bank statement at 30 June 2013 Kshs.17,457.37. No evidence of closure and transfer of funds to the revenue fund account. |
| 5 | Co-Operative | Local Authority Transfer Fund | Balance as per latest bank statement) as at 30 June 2013 Kshs.15,022. No evidence of closure and transfer of funds to the revenue fund account. |
| 6 | Equity Bank | Salaries | Balance as per latest bank statement as at 14 May 2013 Kshs.94,872.15. No evidence of closure and transfer of funds to the revenue fund account. |
| 7 | Family Bank | Local Authority Transfer Fund | Details not available |

| | | | |
|---|-------------|-----------------|--|
| 8 | Equity Bank | Kazi Kwa Vijana | Balance as per latest bank statement as at 24 August 2013 Kshs.23,770. No evidence of closure and transfer of funds to the revenue fund account. |
|---|-------------|-----------------|--|

Municipal Council of Kitui

| | Bank | Account | Balance as per latest statements (Kshs) |
|---|-------------------|------------------|--|
| 1 | KCB | LATF | Balance as 16 May 2013 Kshs.900,629.60 . Amount transferred to County Government Recurrent account Kshs.898,829.60 on 20 May 2013. |
| 2 | Equity | Kazi kwa Vijana | Balance as at 30 September 2013 Kshs.1,045 No evidence of closure. |
| 3 | National Bank | GRF | Balance as at 30 April 2013 Kshs.(2,000). No evidence of closure and transfer of the deficit to County revenue fund account. |
| 4 | Co-operative Bank | Renewals Account | Balance as at 14 January 2013 Kshs.169,448.60. No evidence of closure and transfer of funds to the revenue fund account. |
| 5 | KCB | KRB | Balance as at 14 January 2013 Kshs.(11,458.85). No evidence of closure and transfer of deficit to County revenue account. |
| 6 | Equity | GRF | Balance as at 30 June 2013 Kshs.1,100,729. No evidence of closure and transfer of funds to the revenue fund account. |
| 7 | KCB | EU | Details not available |
| 8 | KCB | GRF | Details not available |

Town Council of Mwingi

| | Bank | Account | Balance as per latest statement(Kshs) |
|---|--------------|----------------------------|---|
| 1 | KCB | General Rate Fund | Balance Kshs.(19,531.85). No evidence of Closure and transfer of funds to the revenue fund account. |
| 2 | KCB | Salaries | Kshs.838,010.15 Transferred to Revenue account on 24 July 2013 |
| 3 | KCB | LATF | Kshs.1,615,474.50 Transferred to Revenue account on 24 July 2013 |
| 4 | KCB | Kenya Roads Board | Kshs.(2,627.60) Transferred to Revenue account on 24 July 2013 |
| 5 | KCB | Kazi kwa Vijana | Balance as at 30 June 2013 Kshs.9,600 No evidence of closure and transfer of funds to the revenue fund account. |
| 6 | Equity | Operations and Maintenance | Balance as at 29 June 2013 Kshs(747.90) No evidence of closure and transfer of the deficit to County revenue account. |
| 7 | Equity | Salaries | Details not available. No evidence of closure of account |
| 8 | Co-Operative | Renewal Fund | Balance as at 4 July 2013 Kshs.106,007.80. No evidence of closure and transfer of funds to the revenue fund account. |

It was further observed that no board of survey was constituted to establish the correct cash on hand and bank account balances for the defunct local authorities, which would subsequently form the opening balances for County Government. Cash books were also not ruled off in order to form a distinct boundary between the incoming authority and the former Councils.

Recommendations

- i. The accounting officer should ensure that all bank accounts are closed and the balances thereof transferred to the County revenue account.*
- ii. Transition Principal Officer should ensure that bank reconciliations are carried out as required under Section 28 of the County Governments Public Finance Management Transition Act, 2013 to establish the correct bank balances that are to be transferred to the revenue fund account.*

(ii) Debtors Balances

The former Councils prepared statements of all debtors as at 28 February 2013 but these were not taken over, confirmed and recorded in the County Government records. The Councils continued to collect revenue and bank the same in their bank accounts. In the circumstances, there was no clear cut off point for confirmation of any movements which could have taken place on debtors taken over. The County Government did not carry out any procedures to ensure completeness, accuracy or correctness of the list of debtors handed over. The debtors indicated in the handing over report prepared by the defunct local authorities are as listed below:

| Former Local Authority | Amount (Kshs) |
|-------------------------------|-----------------------|
| Town Council of Mwingi | - 13,611,079 |
| County Council of Mwingi | - 41,755,731 |

| | | |
|----------------------------|---|---------------------------|
| County Council of Kitui | - | 158,096,600 |
| Municipal Council of Kitui | - | <u>55,139,957</u> |
| Total | | <u>268,603,367</u> |

Recommendation

The County Government should maintain debtor's ledgers to include specific details after performing cut-off procedures and circularizing the debtors. Further, a board of survey should be formed to confirm debtors' balances.

(iii) Creditors and Payables

During the period under review, it was noted that the County Government did not keep any record of creditors taken over from the previous local authorities or its new creditors. The creditors indicated in the handover reports prepared by the defunct local authorities are listed below:

| Former Local Authority | | Amount (Kshs) |
|-------------------------------|---|---------------------------|
| Town Council of Mwingi | - | 9,128,383 |
| County Council of Mwingi | - | 30,743,583 |
| County Council of Kitui | - | 95,675,676 |
| Municipal Council of Kitui | - | <u>59,250,221</u> |
| Total | | <u>194,797,863</u> |

Recommendation

The County Treasury should maintain various records such as creditor's ledgers and registers to accurately record creditors and also carry out regular reconciliations. The creditors transferred from the Local Authorities should be circularized to ascertain the correct creditors' balances as at 28th February 2013.

3.3 Fixed Assets

The former Local Authorities prepared handing over reports for non-current assets as at 28th February, 2013 totaling to Kshs.1,280,998,107. However, there was no record of takeover by the County Government to have custody of the assets. Non-current assets balances handed over by former Local Authorities are analyzed below:

| Former Local Authority | Amount (Kshs) |
|-------------------------------|-------------------------------|
| Municipal Council of Kitui | - 371,319,087 |
| County Council of Kitui | - 682,773,311 |
| County Council of Mwingi | - 114,330,162 |
| Town Council of Mwingi | - <u>112,575,547</u> |
| Total | - <u>1,280,998,107</u> |

Recommendation

Proper systems should be put in place to ensure that assets transferred from the former Local Authorities and those purchased by the County Government are recorded and secured. The same should be put into proper use for the benefit of the citizens.

3.4 Revenue Collection and Accounting

Due to the delay in opening of the County Government Revenue Account, the former Councils continued collecting and banking revenue collections in their accounts and spending, contrary to the existing financial regulations. The revenues were collected as shown below:

| Former Local Authority | Amount (Kshs.) |
|-------------------------------|-----------------------|
| Municipal Council of Kitui | - 15,884,714 |
| County Council of Kitui | - 22,150,498 |

| | | |
|--------------------------|---|--------------------------|
| County Council of Mwingi | - | 16,570,892 |
| Town Council of Mwingi | - | <u>15,789,788</u> |
| Total | - | <u>70,395,392</u> |

Further, the County Government did not take stock and record all receipts books that were to be handed over by the Councils. The revenue collectors continued with the revenue collection before cut off procedures were done to distinguish revenue collected by County Government and the former Councils. The County Government is yet to ensure that all receipts books are accounted for as records in the LAIFOM were not updated and the Manual Counterfoil Receipts book registers for some Councils reflected long outstanding receipt books. The County Government also did not secure the receipt books which were under the custody of the defunct local authorities. This may result into misuse of the receipts books by unscrupulous employees.

Recommendations

The County Government should to put in place an effective self-regulating internal control system to ensure that all revenue received is recorded and accounted for, and all receipt books issued for revenue collection are also accounted for.

3.5 Procurement of Goods and Services

(i) Non-Compliance with Procurement Law and Regulations

The County Government procured various goods and services amounting to Kshs.14,726,110 through restricted tendering. Although it was explained that a prequalified list from Salaries and Remuneration Commission was used to request for quotations, the list was not made available for audit. Also, conditions set out on

restricted tendering under section 73(1) of the Public Procurement and Disposal, Act, 2005 were not met. In addition, goods and services were paid for before delivery. The goods and services procured are indicated below:-

(a) Supply of Office Furniture

| Cheque No. | Date | Particulars | Amount (Kshs.) |
|-------------------|-------------|----------------------------|---------------------------|
| 382 | 28/6/2013 | Supply of Office Furniture | 1,114,300 |
| 386 | 28/6/2013 | Supply of Office Furniture | 3,287,200 |
| 367 | 28/6/2013 | Supply of Office Furniture | 900,000 |
| 365 | 27/6/2013 | Supply of Office Furniture | <u>871,200</u> |
| Total | | | <u>6,172,700</u> |

The quotations listed above appear to have been split, contrary to Section 30(1) of the Public Procurement and Disposal, Act 2005.

(b) Office Fittings

| Cheque No. | Date | Particulars | Amount (Kshs.) |
|-------------------|-------------|--------------------|-------------------------|
| 249 | 12/06/2013 | Office Fittings | 964,250 |
| 368 | 27/06/2013 | Office Fittings | <u>612,880</u> |
| Total | | | <u>1,577,130</u> |

There was no report by the inspection and acceptance committee as required by Public Procurement and Disposal Regulations, 2006 section 17(1).

| Cheque No. | Date | Particulars | Amount (Kshs.) |
|-------------------|-------------|--------------------|-------------------------|
| 250 | 13/06/2013 | Office Fittings | 964,250 |
| 385 | 28/06/2013 | Office Fittings | <u>630,000</u> |
| Total | | | <u>1,594,250</u> |

The above purchases were made from one supplier on the dates shown above. The delivery note and invoice had a similar number 1001 and were both dated 05/06/2013 while the Local Purchase Order No's 1740525 and 1740526 were dated 06/06/2013. It was not clear how the goods were delivered before being

ordered. The above payments were made before inspection and acceptance of goods was done as required by Public Procurement and Disposal Regulations, 2006 section 17(1).

(c) Office Stationery

| Cheque No. | Date | Particulars | Amount (Kshs.) |
|-------------------|-------------|-----------------------------|-------------------------|
| 267 | 13/06/2013 | Supply of office stationery | 1,079,930 |
| 384 | 28/06/2013 | Supply of office stationery | <u>2,992,100</u> |
| Total | | | <u>4,072,030</u> |

Although the payment voucher was prepared on 28 June 2013, the invoices and delivery notes were dated 14 July 2013. The above payment was made before inspection and acceptance of the goods was done.

(ii) Apparent Collusion on Procuring Goods and Services

Scrutiny of documents attached to payment vouchers supporting payments made to suppliers of various goods showed that they shared contact details. This was an indication that the companies were related to each other as shown below:

Mensa General Suppliers and Syprus Engineering shared contact address and were both supplying office furniture.

- a) Ariel Limited and Great Grace companies supplied office furniture and shared contact address
- b) Entthert Building and Construction and Keviha Suppliers supplied office fittings and shared contact address.

Recommendations

The County Government should ensure that all procurements are done as per the Public Procurement and Disposal Act, 2005 and related 2006 regulations. Also, these procurements should be investigated and officers found to have been

involved surcharged for not adhering to the public procurement law while performing their roles.

3.6 Payments

(i) Payment of Allowances

Examination of the County Governments expenditure records revealed that lunch allowances were paid to officers of the County as shown below without indicating the period/days and the rates the lunch allowances were based on:

| PV. No. | Date | Cheque No. | Payee | Amount (Kshs.) |
|----------------|-------------|-------------------|--------------|-------------------------|
| 17 | 13/6/2013 | 20 | Various | 870,000 |
| 226 | 5/6/2013 | 85 | Various | 375,000 |
| 227 | 5/6/2013 | 106 | Various | 300,000 |
| 451 | 27/06/2013 | 374 | Various | 224,000 |
| 352 | 27/6/2013 | 352 | Various | <u>224,000</u> |
| | | | Total | <u>1,993,000</u> |

Recommendation

Allowances should be paid in accordance with Government financial regulations and procedures and should be fully supported.

(ii) Un-accounted for Fuel

The Council made advance payment amounting to Kshs.889,100 on 16/05/2013 to Kitui Total Petrol for fuel drawn by its motor vehicles. However, statements of fuel drawn and work-tickets of motor vehicles fueled were not attached to the work ticket to support the payment as the regulations require.

Recommendation

Payment vouchers for fuel used by the County should be supported with vehicle work tickets, statements of fuel drawn and appropriate invoice.

3.7 IT Control Environment

Assessment of how the County has put in place structure to govern and manage the information systems in place revealed the following:

Management of IT Operations

In order to effectively and efficiently govern and manage the IT operations, the County is yet to develop some of the key ICT documents including:

- ICT policies and procedures
- Network Diagram
- Business Continuity Plans
- Disaster Recovery Plans

IT Organization Structure

The County IT department has five (5) personnel. However, the officers do not have defined roles and responsibilities on how to oversee the IT operations hence there is no clear segregation of duties.

Staff Training on IFMIS

Twenty (20) officers of the County have been formally trained on IFMIS at their offices. However only ten (10) staff have rights to access two modules of the system i.e. plan to budget and procure to pay.

IT Budget

The County has an allocation of Kshs.125,000,000 for ICT in the budget. No detailed breakdown on how the budgeted money will be spent was provided.

Hardware

The following observations were made on hardware components:-

Computers and Accessories

The County had received nineteen (19) computers, fifteen (15) special orange CDMA modems and one scanner from The National Treasury (IFMIS Department) which will be solely used for IFMIS. The Interim ICT Manager has not been able to carry out an assessment of the ICT Status and Infrastructure of the County. There was no ICT register kept or assessment of the existing infrastructure done.

Data Centre

The County has four (4) data center (server room) previously used for LAIFOMS. A physical inspection of the data centers at the former County Council of Kitui and former Municipal Council of Kitui indicated that there were no adequate physical and environmental controls such as smoke detectors and fire extinguishers. The situation was the same in Mwingi Town Council and County Council of Mwingi although the latter two (2) also lacked air conditioning.

Network Connectivity

There is no established Wide Area Network at the County to connect the various Sub-County offices. There is a Local Area Network at the Tanathi (Headquarters) and at former Municipal Council of Kitui offices, former Mwingi Town Council, former County Council of Mwingi which does not interlink the systems and

applications in place. It was however explained that the County Government has not invested in networking because its current offices are temporary and would not wish to invest a lot in temporary offices

Software

The applications in place at the County are as follows:

G-PAY

The County had received one computer from the National Treasury which is dedicated for G-Pay. One officer initially trained on G-Pay was transferred and no other officer in the County has been trained to operate the system. However, the County got another Chief Finance Officer who should be trained on G –Pay.

IPPD

The County has fully installed the IPPD system and the payroll beginning June 2013 was processed using the system. One (1) trained user who is the manager in charge and operator. There is need to train more officers on use of G-Pay.

Integrated Financial Management Information System (IFMIS)

As at the time of audit in September 2013, Kitui County Government had not started operating IFMIS developed by the National Treasury. The County was instead using a manual system for payments/expenditures, although the hardware and software for the system had already been made available and staff to handle the system had also been trained. No proper explanation was offered for the failure to roll out the system.

Recommendations

The County Government should accelerate the process of putting in place the IFMIS system to facilitate standard financial management including budgeting, accounting and reporting.

Former Municipal Council of Kitui

3.8 Improper Handing Over to the County Government

There was no proper handing over of the former Municipal Council of Kitui assets and liabilities to the Transition Authority as required by the circular from Ministry of Local Government. The letter submitting list of assets, liabilities and human resource reference CAK/15/53/ (23) dated 19 July 2013 to the County Secretary, was not acknowledged by the County Secretary. The Interim County Secretary, taking over did not sign the memo. The statement did not set out a debt management strategy as per Ministry circular. The statement also did not set out assumption underlying the debt management strategy and an analysis of the sustainability of the amount of debt actual and potential.

Recommendation

The Transition Authority should ensure that proper handing over by the former chief officers of the Council is done without further delay.

3.9 Current Assets and Liabilities

i) Cash and Bank

(a) Failure to close Bank Accounts

The Municipal Council did not comply with the Transition Authority circular which required that local authorities close all bank accounts operated by them by 28th February 2013. This was followed by an internal memo no.

CGK/SCMU/ADM/Vol I(07) of 3th May 2013 from the Principal Finance Officer addressed to all chief officers of defunct local authorities under the County, requiring that the bank accounts be closed and balances transferred to the County revenue account at KCB. All these circulars were not complied with since the Council continued to operate the accounts beyond the deadline date.

(b) Cash and Bank Balances Handed Over

The Council did not constitute a board of survey to establish the correct cash on hand as at 28 February 2013. The handing over memorandum did not show amount of cash and bank (part of assets) balances being handed over to the County Government. The cash books were also not ruled off to reflect the cutoff date between the defunct Local Authority and the Transition Authority transactions. It was therefore not possible to establish the closing balances for the local authorities and the opening balances for the incoming County Government.

Recommendations

The accounting officer should ensure that all bank accounts are closed and the balances thereof transferred to the County revenue account.

(ii) Debtors

- a) The Council did not maintain debtors' ledger to record movements of debtors, in particular plot rent/rates. The rent and rates debtors balances as shown in the handing over memorandum amounting to Kshs.46,068,235 differed with the LAIFOMS balances of Kshs.81,609,241 by Kshs.35,541,006. No explanation was offered for this discrepancy.
- b) The debtors' balance of Kshs.55,139,957 includes an amount of Kshs. 155,620 relating to staff advances as at 28 February 2013. However, the

Council did not provide a list of the advance holders to support the figure. Further, Council records showed outstanding staff advance as at 28 February 2013 of Kshs.46,840 thereby creating unexplained difference of Kshs. 108,780. No explanation was offered for failure to recover the advances from the employees in time.

Recommendation

The County Government to maintain up-to date records of debtors and ensure that measures are put in place to collect revenue from the outstanding debtors.

(iii) Creditors

The Council prepared a statement of assets and liabilities as at 28 February 2013 reflecting creditors balance amounting to Kshs.59,250,221 which included an amount of Kshs.1,117,081 payable to a contractor. By the date of the handing over memorandum, the contractor had not performed any work for the Council. Loans totaling to Kshs.33,755,695 payable to NHC (Kshs.21,400,947) and LGLA (Kshs. 12,354,748) could not be confirmed since the Council did not provide loan agreements and loan registers. The Council did not provide particulars of outstanding statutory deductions amounting to Kshs.3,884,672. The figure was not analysed to show penalties and interest charged, thereby making it difficult to identify the principal amounts. It was also observed that the Council did not maintain creditor's ledger to record statutory deductions. In addition, an amount of Kshs.510,358 payable to a firm of Advocates could not confirmed since the Council did not provide fee notes or list of cases handled.

Recommendation

The County Government to maintain up-to date records of creditors with relevant supporting payments. No Creditor should be paid without properly establishing that a service/good was correctly rendered to the Council/County Government.

3.10 Fixed Assets

The Council prepared a handing over report as at 28 February 2013 showing assets amounting to Kshs.371,319,087, out of which Kshs.15,482,130 related to movable assets. However, the former Municipal Council of Kitui did not maintain a comprehensive Fixed Assets Register to record the assets. The Council did not code all its assets and also did not indicate location of its assets. The Council revalued its assets in December 2012 but did not take into account the fair values of movable assets which amounted to Kshs.18,719,959. The value of the assets was understated by Kshs.3,237,829.

Recommendation

The County Government of Kitui should ensure that all assets of the former Council are recorded at their fair values and secured.

3.11 Revenue Collection

The Council continued collecting revenue and banking in Renewals Fund and General Rate Fund accounts after 28 February 2013. The revenue collected and banked as from 1 March to 30 April 2013 amounted to Kshs.15,884,714. The revenue was not banked intact since as at the time of audit in September, 2013 an amount of Kshs.567,735 had not been banked and had been spent directly. Also,

there were long outstanding revenue receipt books which were yet to be returned and accounted for. Further, the taking over authority did not take all the Councils unused receipt books on charge. Therefore, revenue was still being collected using the defunct Council's receipt books. The counter foil receipt books register was not ruled off to indicate when the Council exited and entry of the new entity.

Recommendations

The County Government should always comply with the provisions of Public Finance Management Act, 2012 and all revenue collected should be banked intact and promptly.

3.12 Personnel Costs

The Municipal Council of Kitui prepared handing over report containing names of employees to be handed over and included two officers who had been transferred out of the Council. It was further observed that the Council was paying out Kshs.153,000 per month as hardship allowance and yet Kitui is not listed as hardship area. During the period under review, the Council had paid Kshs. 612,000. The Council was also paying the Clerk acting allowance of Kshs.7,522 per month and the Treasurer Special Duty Allowance of Kshs.12,634 per month. However, no Ministerial Advisory Committee authority approving these payments was made available for audit verification.

Further, the Council implemented the new CBA in February 2013, and paid salary increment totaling to Kshs.9,309,112. The salary increase was however not budgeted for and there was no supplementary budget approved for the increased salary and arrears.

Recommendation

The County Government of Kitui should ensure that compliance with the law is adhered to by deducting all taxes on incomes and remitting the same to the Commissioner of Domestic Tax. Further, only appropriated funds should be spent by the County.

3.13 Other Findings

(i) Expenditures

Payments made by Council/County against no Approved Budget

The Council/County made the following payments after 28 February 2013. However, it was not possible to establish whether the expenditure was made in accordance with the approved budget by Parliament and County Assembly as required by County Governments Public Finance Management Transition Act, 2013 section 8(2) (c). The Council/County spent Kshs.17,300,023 against no approved budget between March and June 2013 as shown below:

| | | |
|--------------|---|-------------------------------|
| GRF account | - | Kshs.13,198,952 |
| LATF account | - | <u>Kshs. 4,101,071</u> |
| | | <u>Kshs.17,300,023</u> |

(ii) Unsupported Additional Expenses on Projects

Bills of quantities for some projects include provisions for Engineers miscellaneous expenses. No explanation was offered by the Council for inclusion of these expenses in the projects. The payment vouchers did not reflect specific expenses covering this item. As at the time of audit inspection, the Council had spent Kshs.724,130 under this particular item as follows:

| Project Description | Engineers Misc. (Kshs) |
|-------------------------------------|-----------------------------------|
| Classrooms at Mbusyani Sec School - | 35,000 |
| Construction of Science Lab - | 150,000 |
| Drift at Ndia Nzine - | 50,000 |
| Street Lighting - | 224,130 |
| Science Lab. Nzakame Laboratory - | 150,000 |
| Construction Works Kakumi - | 30,000 |
| Sand Dam- Upper Ngiini - | 50,000 |
| Construction of Class - | <u>35,000</u> |
| Total - | <u>724,130</u> |

Construction of Classroom Kyunduari

Payment voucher for expenditure of Kshs.975,212 for construction of Kyunduari classroom was prepared before the project was completed i.e. on 28 February 2013 while the project was completed on 8 April, 2013. No explanation was provided for the anomaly.

(iii) Tenders awarded without following procurement regulations

(a) Construction of Town Toilet

According to the Public Procurement and Disposal Regulations, 2006 section 59 (1), a procuring entity that conducts procurement using the request for quotations method pursuant to section 88 of the Act shall be subject to the procurement thresholds set out in the First Schedule. The first schedule sets a maximum of Kshs.500,000 for class C entities. However, the Council through quotations awarded a contract at a cost of Kshs.987,431 for construction of a town toilet at the Council's offices, therefore surpassing the threshold by Kshs.487,431.

(b) Supply of Building Materials and Computer Accessories

The Council during the year awarded a general tender for supply of building materials and computers accessories to some two merchants. The Council directly purchased items costing Kshs.2,852,111 from both merchants. It would appear that the intention was to prevent fair and open competition as intended by Section 34 (1) of the Public Procurement Act, 2005 since no quotations were invited. It could also not be confirmed whether or not the building materials and computer accessories were inspected and accepted by Inspection and Acceptance Committee as required by Public Procurement and Disposal Regulations, 2006 under section 17(1).

(c) Supply of Tyres for Tractor

The Council procured tyres for a tractor at a cost of Kshs.300,000 but did maintain a list of prequalified suppliers of tyres during the period under review. It was not possible to establish how the three suppliers who submitted quotations were identified. In the circumstances, the tyres may not have been competitively procured and the Council may not have gotten value for money. In addition, there was no evidence for confirmation that the tyres were fitted to the tractor.

(d) Community Based Projects

During the period under review, the Council implemented various projects through community based approach. However, building materials supplied at a total cost of Kshs.3,047,450 were not inspected and accepted by the committee. Details of the items are as indicated below:-

| Date | Project Description | Amount (Kshs.) |
|-------------|--------------------------------------|---------------------------|
| 23/02/2013 | Construction of Classroom Kwa Ngindu | 237,600 |
| 27/02/2013 | Construction of Classroom- Umuu | 321,300 |
| 25/02/2013 | Maternity Wing Kauma Dispensary | 1,153,150 |
| 25/02/2013 | Construction of Classroom at Nyekini | 329,170 |
| 250/2/2013 | Construction of Library Yumbisye | <u>1,006,230</u> |
| | Total | <u>3,047,450</u> |

Recommendations

The County Government should ensure that expenditure incurred is accounted for and is as per the approved estimates. Also, goods, works or services should be procured in accordance with the Public Procurement and Disposal Act, 2005 and related regulations of 2006.

Defunct County Council of Kitui

3.14 Improper Handing-over to County Government

There was no proper handing over of the former County Council of Kitui assets and liabilities to the Transition Authority as required by the Ministry of Local Government circular of 18 February ,2013. Although the former Clerk to the Council prepared a statement of assets and liabilities as at 28 February 2013, the handing over letter dated 28 March 2013 was only signed by the former Clerk to the Council. The Interim County Secretary taking over did not sign the letter, raising doubt on authenticity of the report. The statement did not set out a debt management strategy and also assumptions underlying the debt management strategy as well as an analysis of the sustainability of the actual amount of debt and potential liabilities required by the Ministry circular.

Recommendation

The County Government/ Transition Authority should recall the Chief Officers of the defunct Local Authority to ensure that proper handing over is done to enable the County Government have a basis of opening balances to be reflected in its books of account.

3.15 Current Assets and Liabilities

(i) Cash and Bank Balances

(a) Non-Preparation of Monthly Bank Reconciliation Statements

The Council did not prepare monthly bank reconciliation statements for the following accounts:

| Name | Bank | Period Reconciliations Not Done |
|-------------------|-------------------|--|
| Kazi Kwa Vijana | Equity | January to June 2013 |
| Poverty Reduction | National Bank | January to June 2013 |
| LATF | Equity | April to June 2013 |
| LATF | National Bank | January to June 2013 |
| LATF | Family Bank | January to June 2013 |
| LATF | Co-Operative Bank | January to June 2013 |

Accuracy and completeness of transactions recorded in these accounts could not be ascertained.

(b) Accuracy of Monthly Bank Reconciliation Statements

The Council prepared monthly bank reconciliations for GRF account for the month of January 2013 which reflected two stale cheques numbers 9872 dated 27/06/2012 and 9879 dated 04/07/2012 for Kshs.256,776 and Kshs.21,072, respectively. As at the time of audit inspection in September 2013, the two cheques had not been written back into the cash book. The reconciliation also reflected under-debits and

over-debits of Kshs.171,916 and Kshs.1,169,580 respectively, but which were not supported with detailed analysis for confirmation of what the entries represent. The correctness and accuracy of transactions in these accounts could not be established.

(c) Non- Closure of Bank Accounts

Interim Principal Finance Officer through letter CG/CFO/4/1/8 dated 20 May 2013, instructed various banking institutions where the defunct local authorities held accounts to close all Councils' bank accounts and transfer the balances to the County Revenue Account. The instruction was however not complied with as the accounts were not closed.

(d) Cash Board of Survey

The Council did not constitute a board of survey to establish the correct cash on hand and bank balances as at 28 February 2013 to be handed over to the County Government. The cash books were not ruled off to indicate the correct closing balances for the County Council and opening balances for the County Government. The Council did not indicate the amount of cash and bank balances (part of assets) to be handed over to the County Government.

(e) Missing Bank Statements

The following bank statements were not made available for audit review:

| Account Particulars | Bank | Statement Period |
|----------------------------|--------------|--------------------------|
| LATF | National | 1/5/2013 to 30/06/2013 |
| LATF | Equity | 15/05/2013 to 30/06/2013 |
| Poverty Reduction | National | 1/5/2013 to 30/06/2013 |
| LATF | National | 1/4/2013 to 30/06/2013 |
| LATF | Co-Operative | 1/1/2013 to 30/06/2013 |

| | | |
|-----------------|--------|------------------------|
| LATF | Family | 1/1/2013 to 30/06/2013 |
| Kazi Kwa Vijana | Equity | 1/1/2013 to 30/06/2013 |

Recommendations

- (i) *The accounting officer should ensure that all bank accounts are closed and the balances in those accounts thereof transferred to the County revenue account.*
- (ii) *Transition Principal Finance Officer should ensure that reconciliations are done as per section 28 of the County Governments Public Finance Management Transition Act, 2013 and explanation given for under-debits and over-debits to establish the correct bank balances that ought to have been transferred to the revenue fund account.*

(ii) Debtors

The Council had debtors amounting to Kshs.158,096,600 according to the list attached to the handing over report. The list was not supported with detailed schedules of individual debtors. The debtors' registers maintained by the Council was not kept up-to date. Also, details of primary records such as receipts, invoices were not entered in the ledgers. Debtors balances in respect to Mast Lease (Kshs.539,189), Contribution in Lieu of Rates (Kshs.53,862,705) and House Rent (Kshs.328,000) had no supporting documents and were also not reconciled with debtors' statements. Further, there were long outstanding imprests amounting to Kshs.4,982,555 which had not been surrendered or accounted for as at the time of audit in September, 2013.

Recommendation

The County Government to maintain accurate and up-to date records of debtors and ensure that measures are put in place to collect revenue from the outstanding debtors.

(iii) Creditors

- (a) The Council prepared a statement of assets and liabilities as at 28 February 2013 reflecting creditors' balance of Kshs.95,675,676 to be handed over to the County Government. The Council did not maintain an updated creditors' ledger to record creditors' transactions and details like invoices, demand or fee notes, neither did the Council circularize the creditors to confirm balances.
- (b) A Scrutiny of other records indicated creditors amounting to Kshs.59,341,951, thereby raising doubt on accuracy of the figure reflected in the list attached to handing-over report. Bursaries amounting to Kshs.3,459,500 were reflected as creditors, but it was not possible to establish how they were disclosed as creditors since no supporting documents were seen.
- (c) Included in the balance of creditors handed over is amount of Kshs.694,000 indicated owed to County Council of Kitui but no details were made available for audit confirmation.
- (d) The Council's records indicate Kshs.10,980,000 owed to a firm of Advocates as at 28 February 2013. Fee notes made available for audit amounted to only Kshs.1,741,000 while creditors' ledger did not contain details of transactions with the law firm. Another firm of Advocates was also reflected as being owed Kshs.6,535,420 as at 28 February 2013 and was paid Kshs.2,000,000 on 7 March 2013 although no fee note was made available for audit confirmation.
- (e) The Council also indicated another firm of advocates as being owed legal fees amounting to Kshs.15,090,894 as at 28 February 2013, after being paid Kshs.10,915,618 vide bank transfer on 26/02/2013. However, no other fee

notes were made available for confirmation additional services rendered by the firm.

Recommendation

The County Government to maintain up-to date records of creditors with relevant supporting payments. Also, no Creditor should be paid without properly establishing that a service/good was rendered/delivered the Council/County Government.

3.16 Fixed Assets

The former County Council of Kitui did not maintain a comprehensive Fixed Assets Register to record Council assets and there was no inventory record indicating location of movable assets for ease of identification and confirmation. No valuation of assets was done. Included in the list of items to be handed over were four (4) motor vehicles and a grader whose values were reading nil, while details of furniture, equipment and computers amounting to Kshs.468,507 were not recorded in the Assets Register. Some computers, equipment's and furniture's were not recorded in the assets register, while a listing of assets inventory did not show serial numbers or special identification of the equipment, furniture and computers.

A physical verification of Council assets revealed that the following officers were issued with the listed assets but did not return them upon ceasing to be employees of the Council:

| Date Issued | To whom Issued | Asset Particulars |
|--------------------|---------------------------------------|--------------------------|
| 22/2/2012 | Clerk's office - Mr. Kimwele | Laptop and IPAD |
| 22/2/2012 | Treasurer's office - Mr. Alfred Kitoo | Laptop and IPAD |
| 30/5/2012 | Chairman's office -John Manguye | Laptop and IPAD |

Further, it was noted that a Laptop issued to a Council official got lost but the Council had no policy on assets lost by its staff, resulting to no recovery. In addition, Laptops and Ipads purchased on 25/02/2013 at a cost of Kshs.392,900 were not recorded in the Council's records and neither was the payment voucher made available for audit review. In the circumstances, accuracy of the balances and security of the assets that were handed over to the County Government could not be established.

Recommendation

The County Government of Kitui should put in place systems that will facilitate accurate recording of all assets of the former County Council and also ensure their security.

3.17 Revenue Collection

The Council continued collecting revenue and banking the proceeds in Salaries account at Equity Bank and General Rate Fund account after 28 February 2013. The revenue collected and banked as from 1 March to 30 April 2013 amounted to Kshs.22,150,498. Further, there were no cut off procedures to show the revenue receipt books handed over to Transition Authority and the cut-off point where the County Government started collecting revenue. This rendered proper accountability of these accountable documents doubtful and may lead to loss of revenue.

3.18 Personnel Costs

The Council implemented the new Collective Bargaining Agreement (CBA) on February 2013 and paid salary arrears of Kshs.7,961,225. The salary increment occasioned by the new CBA was not originally budgeted for and there was no approved supplementary budget authorizing the expenditure. The Council irregularly offered double relief to its employees which in effect reduced PAYE payable by Kshs.534,520.

Recommendation

Laws governing statutory deductions should be complied with by deducting all taxes on incomes and remitting the same to Commissioner of Domestic Taxes. Further, funds appropriated should be spent by the County in accordance with the budget.

3.19 Other Findings

(a) LATF Account Payments-Unaccounted for Funds

The Council did not make available for audit confirmation payment vouchers with expenditure totaling to Kshs.7,307,812. Further, scrutiny of bank statements revealed that the Council/County made various payments through electronic funds transfer as indicated below:-

| Date | | Amount (Kshs.) |
|--------------|---|--------------------------|
| 27/02/2013 | - | 2,797,000 |
| 2/1/2013 | - | 2,134,000 |
| 7/3/2013 | - | 2,000,000 |
| 8/3/2013 | - | <u>4,008,940</u> |
| Total | - | <u>10,939,940</u> |

However, payment vouchers, details or purpose of the payments were not made available for audit.

(b) Unsupported Expenditure – GRF Account

An audit of GRF Account revealed that payments vouchers amounting to Kshs.3,429,014 were not made available for audit while transfers listed below amounting to Kshs.6,100,000 were not supported by payment vouchers:

| Date | Amount (Kshs.) |
|--------------|-------------------------|
| 26/3/2013 | 4,000,000 |
| 2/5/2013 | <u>2,100,000</u> |
| Total | <u>6,100,000</u> |

(c) Procurements made on cash basis

Cheques for procuring the Governor's and Deputy Governors' furniture and stationary all totaling to Kshs.1,186,700 were written in the name of the payment cashier indicating that the purchase was done on cash basis. Details of the payment vouchers are shown below:

| Cheque No. | Date | Amount (Kshs.) |
|-------------------|-------------|-------------------------|
| 10276 | 05/04/2013 | 129,700 |
| 10277 | 05/04/2013 | 502,000 |
| 10278 | 05/04/2013 | <u>555,000</u> |
| Total | | <u>1,186,700</u> |

(d) Irregular Payment of Legal Fees

The Council paid a firm of Advocates Kshs.10,915,618 vide bank transfer on 26/02/2013. Included in the amount is Kshs.10,786,301 which did not have fee notes and was supported by a letter dated 31 July 2012 by a former clerk vide letter Ref: CC/17/18/XVII/212 as evidence of outstanding debt due from the Council. In the circumstances, it was not possible to establish propriety of expenditure incurred on legal fees.

(e) Payments made by Council/County against no Approved Budget

The Council made payments totaling to Kshs.50,818,081 from its various accounts after 28 February 2013 as analyzed below:

| Account Number | | Amounts (Kshs.) |
|-----------------------|---|-------------------------------|
| GRF Account | - | Kshs.20,010,090 |
| LATF Account | - | Kshs.17,990,865 |
| Salaries Account | - | <u>Kshs.12,817,126</u> |
| | | <u>Kshs.50,818,081</u> |

However, we were not able to establish whether the expenditure was made in accordance with budget approved by Parliament and County Assembly as required by County Governments Public Finance Management Transition, 2013 section 8(2) (c) since the budget was not made available for audit confirmation.

The Council also made payments amounting to Kshs.12,248,287 from the GRF account. However, the payments were not recorded in the LAIFOM system and payment vouchers were not made available for audit to indicate what was being paid for.

Recommendations

The County Treasury should ensure that all expenditure are accounted for and are incurred as per the approved estimates, and in accordance with the procurement law.

Defunct County Council of Mwingi

3.20 Improper Handing-Over to the County Government

There was no proper handing-over of the former County Council of Mwingi assets and liabilities to the Transition Authority as required by the Ministry of Local Government circular of 18th February, 2013. Although the former Clerk to the Council prepared a statement of assets and liabilities as at 28 February 2013, the handing over letter dated 28 March 2013 was only signed by the former Clerk to the Council. The Interim County Secretary taking over did not sign the letter. Further, the statement did not set out a debt management strategy and also assumptions underlying the debt management strategy as well as an analysis of the sustainability of the actual amount of debt and potential liabilities required by the above circular. In the absence of confirmed closing balances of assets and liabilities from the former Councils, the County Government will have no proper basis for opening balances in its books of accounts.

Recommendation

The Transition Authority should facilitate recall of Chief Officers of the defunct Local Authorities and ensure that proper handing over of assets and liabilities of the Councils, including personnel is done.

3.21 Current Assets and Liabilities

(i) Cash and Bank Balances

(a) Failure to Prepare Monthly Bank Reconciliation Statements

The Council did not prepare monthly bank reconciliation statements for the period 1 January to 30 June 2013, for the following three bank accounts:

| Account Name | | Bank |
|---------------------|---|-------------|
| LATF | - | Equity |
| Kenya Roads Board | - | KCB |
| Renewal | - | KCB |

(b) Accuracy of Monthly Bank Reconciliations

Although the Council prepared bank reconciliations statements for Salaries Account and GRF Account held at Equity Bank Mwingi Branch, the monthly bank reconciliations were inaccurate as detailed below:

- (i) Salaries bank account (Equity) reconciliations contained two stale Cheques totalling to Kshs.1,925,645 and dated July 2012 but which had not been written back into the cashbook as at 30 June , 2013 as shown below:

| Date | Cheque No. | Amount (Kshs.) |
|-------------|-------------------|-------------------------|
| 9/7/2012 | 000608 | 44,000 |
| 31/07/2012 | 000611 | <u>1,881,645</u> |
| | Total | <u>1,925,645</u> |

- (ii) GRF Account reconciliations contain stale Cheques totaling to Kshs.82,400 which had not been written back into the cashbook as listed below:

January

| Date | Cheque No. | Amount (Kshs) |
|-------------|-------------------|----------------------|
| 9/7/2012 | 001599 | 5,000 |
| 17/7/2012 | 001605 | 5,500 |
| 19/7/2012 | 001610 | 4,000 |
| 6/6/2012 | 001550 | 11,700 |
| 19/6/2012 | 001568 | <u>3,900</u> |
| | Total | <u>30,900</u> |

February

| | | |
|----------|--------|----------------------|
| 8/8/2012 | 001632 | <u>32,000</u> |
| | | <u>32,000</u> |

March

| | | |
|--------------|--------|----------------------|
| 5/9/2012 | 001699 | 12,500 |
| 10/9/2012 | 001706 | <u>7,000</u> |
| Total | | <u>19,500</u> |

Therefore, accuracy and completeness of the cashbook balances could not be established and this may lead to loss of funds.

(c) Closure of Bank Accounts

As indicated below, the Council did not comply with Section 28 of the County Governments Public Finance Management Transition Act, 2013 which required that the banks accounts of the defunct Local Authorities be closed. Although the Interim Principal Finance Officer wrote an internal memo addressed to former Councils' Chief Executive Officers to close the bank accounts and transfer the balances to the County Revenue Account opened at KCB by 03 May 2013, the memo and a circular from the Transition Authority to that effect were not complied with as indicated below:

| | Account | Bank | Balance as per latest statement(Kshs) |
|---|----------------|-------------|---|
| 1 | LATF | KCB | Balances as at 03 June 2013 Kshs.20,744,626.35. Amount transferred to County Current account Kshs. 20,742,426 |
| 2 | Salaries | Equity | Balance as at 13 June 2013. No evidence of closure and transfer of funds to the revenue fund account. |

| | | | |
|---|----------------------|--------|---|
| 3 | GRF | Equity | Balance as at 13 June 2013. No evidence of closure and transfer of funds to the revenue fund account. |
| 4 | LATF | Equity | Balance as at 22 May 2013 Kshs.53,565.85. No evidence of closure and transfer of funds to the revenue fund account. |
| 5 | Savings/ Renewals | KCB | Details not available |
| 6 | KRB | KCB | Details not available |
| 7 | EU | KCB | Details not available |
| 8 | GRF | KCB | Details not available |

(d) Failure to Constitute Cash Board of Survey

The Council did not constitute a board of survey to establish the correct cash on hand and bank balances as at 28 February 2013. Also, amount of cash and bank balances (part of assets) being handed over to the County Government was not indicated in the handing over report. During the transition period, the cashbook was not ruled off to show where the Local Authority stopped operations and the point where the County Government started. As a result, accuracy of cash and bank balances handed over/ taken over could not be confirmed.

Recommendations

The accounting officer should ensure that all former Council's bank accounts are closed and the balances in those accounts transferred to the County revenue account. Transition Principal Officer should ensure that reconciliations are carried out in accordance with the requirements of Section 28 of County Governments Public Finance Management Transition Act, 2013 in order to establish the correct bank balances that should be transferred to the revenue fund account.

(e) Payments made by the Council against no Approved Budget

The Council made payments totaling to Kshs.39,342,396 from three of its accounts after 28 February 2013 which was the cut-off date. However, it was not possible to establish whether the expenditure was made in accordance with approved budget, as required by County Governments Public Finance Management Transition Act, 2013 section 8(2) (c) as no information was made available to that effect. Below are the details of the withdrawals:

| Account Particulars | | Amount (Kshs) |
|----------------------------|---|--------------------------|
| GRF Account | - | 3,003,469 |
| Salaries Account | - | 14,421,926 |
| LATF Account | - | <u>21,917,001</u> |
| Total | - | <u>39,342,396</u> |

Recommendations

The County Treasury should ensure that all expenditure are accounted for and are incurred in accordance with the approved estimates.

(ii) Debtors Balances

The Council handed over debtors amounting to Kshs.41,755,731 made up of CILOR (Kshs.4,235,138), rates from Kiambere (Kshs.2,510,755) and plot rents (Kshs.35,009,838). However, accuracy of the balances could not be confirmed since there were no invoices or demand notes issued to plot or stall owners. Also, the Council did not maintain updated debtors' ledgers to record movements of debtors' in respect to plot rent/rates. Further, records in the manual registers differed with the LAIFOM system.

Recommendation

The County Government to maintain up-to date records of debtors and ensure that measures are put in place to collect revenue from the outstanding debtors.

(iii) Creditors/Payables

- a) The Council prepared a statement of assets and liabilities as at 28 February 2013 reflecting creditors balance of Kshs.30,743,583 to be handed over to the County Government. Accuracy of the balances could not be confirmed since the Council did not circularize the creditors for independent third party confirmation of the balances.
- b) The creditors balance includes Kshs.30,000,000 relating to a loan borrowed by the Council from Kenya Commercial Bank. However, it was not possible to verify and confirm the correctness of the balance as the Council did not make available for audit the loan agreements, ledgers and other related records. It was also noted that the loan forms a basis of a legal case still pending at the High Court in Machakos.

Recommendation

No creditors should be paid without properly establishing that services/goods were rendered/ delivered or that funds had been advanced to the Council. The County Government to maintain up-to date records of creditors with detailed information and relevant supporting documents.

3.22 Fixed Assets

The Council listed assets amounting to Kshs.114,330,162 in the handing-over memorandum. The figure was not complete since several movable assets were not valued and therefore no monetary values were placed on them. Further, the Council carried out revaluation of assets in December 2012, but a comprehensive

Fixed Assets Register for recording assets was not maintained. Also, ownership documents (logbooks) for the following motor vehicles/cycles were not made available for audit confirmation:

| Registration Number | Make |
|----------------------------|----------------|
| KUZ475 | Land-Rover |
| KAR579L | Toyota Pick up |
| KAB306Q | Grader |
| KAW288Z | Motor Bike |
| KAW289Z | Motor Bike |

The log books for the motor vehicles/cycles were said to have been destroyed in a fire disaster that occurred at the Council's premises on 29th May 2009. No effort appears to have been made to apply for new log books.

Recommendation

The County Government of Kitui should ensure that all assets transferred from the former Council are valued, properly recorded and secured. Ownership documents for all assets should be obtained from the relevant authorities.

3.23 Revenue Collection

The Council continued collecting revenue after 28 February 2013 and banking the same in Salaries and General Rate Fund accounts held at Equity bank. The revenue collected and banked in these accounts as from 1 March to 30 April 2013 amounted to Kshs.6,570,892. Further, there was no board of survey constituted to draw a line between the revenue receipt books handed over and the cut-off point where the County started collecting revenue.

Recommendations

Proper accountability for revenue collections should be enhanced by putting in place strong internal control systems.

3.24 Other Findings

(a) LATF Account Payments

Payments made by Council/County against no Approved Budget

The Council made payments totaling to Kshs.39,259,996 from GRF, Salaries and LATF Accounts after 28 February 2013 which was the cut-off date. However, no approved budget was seen for this expenditure.

(b) Staff Payroll

The Council implemented salary increments occasioned by the new CBA in February 2013. However, the salaries had not been budgeted for and there was no supplementary budget approved for the same. The Council back dated the payments to 1 September 2012 and paid salary arrears without deducting PAYE of Kshs.1, 282,635.

Recommendation

Statutory deductions should be effected in line with the existing laws and the same remitted to relevant authorities. Further, only funds appropriated should be spent by the County Government.

Former Town Council of Mwingi

3.25 Improper Handing over to the County Government

There was no proper handing over of the former Town Council of Mwingi's assets and liabilities to the Transition Authority as required by 18th February 2013 circular from Ministry of Local Government. The letter submitting list of assets, liabilities and human resource reference TCM/16/1/VOL.V/45 dated 28 February 2013 addressed to the Permanent Secretary, Office of the Deputy Prime Minister and Ministry of Local Government and copied to the Chairman Transition Authority, was not acknowledged by the Permanent Secretary nor the Chairman of the Transition Authority. The handing and taking over report did not include cash and bank balances as at 28th February, 2013. Accuracy of the assets and liabilities balances handed over could therefore not be confirmed.

Recommendation

The Transition Authority should ensure that a proper handing over is done by the former Council's chief officers to enable the County Government have proper basis and accurate opening balances for its books of account.

3.26 Current Assets and Liabilities

(i) Cash and Bank Balances

(a) Non-Preparation of monthly Bank Reconciliations Statements

The Council did not prepare monthly bank reconciliations statements for the period 1 January to 30 June 2013 in respect to the following bank accounts:

| Name | Bank |
|-------------------|-------------|
| Kenya Roads Board | KCB |
| Kazi Kwa Vijana | KCB |

| | |
|----------------------------|--------------|
| Operations and Maintenance | Equity |
| Salaries | Equity |
| Renewal Funds | Co-operative |

(b) Accuracy of Monthly Bank Reconciliations Statements

Although the Council prepared monthly bank reconciliation statements for Salaries, LATF and GRF Accounts, all held with KCB Mwingi Branch, the reconciliations reflected long outstanding stale cheques as at 30th April 2013 as shown below:

| Account Particulars | Stale Cheques (Kshs) |
|----------------------------|-----------------------------|
| Salaries Account - KCB | 3,829,902 |
| LATF Account - KCB | 5,652,352 |
| GRF Account - KCB | 5,166,399 |

As at the time of audit inspection in September, 2013, all the stale cheques had not been written back into the cashbooks. This renders accuracy of the cashbook balances doubtful and may also lead to irregular transactions taking place undetected.

(c) Closure of Bank accounts

As indicated below, the County Government did not comply with section 28 of the County Governments Public Finance Management Transition Act, 2013. Although the Interim Principal Finance Officer through letter no. CGK/SCMU/ADM/Vol 1/(07) wrote to various former Councils to close down the accounts on 03 May 2013 and transfer the amounts to the County revenue account at KCB, it was noted that the accounts were not closed.

(d) Failure to Constitute Board of Survey

The Council did not constitute a board of survey to establish the correct cash and bank balances as at 28 February 2013. Further, the cashbooks were not ruled-off to indicate the dates on which the defunct Local Authority ceased operations and the Transition Authority/ County Government took over.

(e) Missing Bank Statements

The following bank statements were not made available for audit review:

| | Bank | Account | Period |
|---|-------------|----------------------------|---|
| 1 | KCB | General Rate Fund | 1 May to 30 June 2013 |
| 2 | KCB | Salaries | 1 June to 30 June 2013 |
| 3 | KCB | LATF | 7 May to 30 June 2013 |
| 4 | KCB | Kenya Roads Board | 1 January to 10 February 2013, 11 May to 30 June 2013 |
| 5 | KCB | Kazi kwa Vijana | 1 January to 30 June 2013. |
| 6 | Equity | Operations and Maintenance | 1 January to 31 January 2013. |
| 7 | Equity | Salaries | 1 January to 30 June 2013. |

Failure to produce bank statements for audit contravenes the Public Finance Management Act, 2012 and Public Audit Act, 2003 which require that all documents necessary for audit should be made available for verification.

Recommendations

The accounting officer should ensure that all bank accounts are closed and the balances in those accounts thereof transferred to the County revenue account. Transition Principal Officer should also ensure that bank reconciliations are done to establish the correct balances to be transferred to the County revenue fund account. Also, boards of survey should be formed at the close of each year for confirmation of closing cash and bank balances.

(ii) Debtors

The Council prepared handing over memorandum reflecting debtors' balance of Kshs.14,769,194, which included an amount of Kshs.2,037,839 shown as outstanding Imprest. Also, staff advance of Kshs.44,000 as at 28th February 2013 was not disclosed in the statement. The balance also included Kshs.12,731,355 rent arrears which was not supported with any detailed listing. As a result, the debtors' balance of Kshs.14,769,194 handed over to the County Government is incorrect.

Recommendation

Proper systems should be put in place to ensure prompt recording of debtors. Also, a debt collection policy should be developed to facilitate recoverability of outstanding debts.

(iii) Creditors

- a) The Council prepared a statement of assets and liabilities as at 28 February 2013 reflecting creditors' balance of Kshs.18,378,113 to be handed over to the County Government. However, no circularization of the creditors was done to facilitate independent third party confirmation of the balances. Further, invoices or statements supporting the creditors' balances were not made available for audit confirmation. Included in the creditors' balance was

an amount of Kshs.6,912,865 listed as contingent liability which arose out of two legal actions instituted against the Council. No details of the liability were made available for audit review.

- b) An amount of Kshs.7,015,458 payable to Laptrust is reflected as actuarial deficit but the source and accuracy of the figure could not be confirmed as it was not reflected in the Council's records and was also not supported.
- c) Legal fees of Kshs.194,290 payable to a firm of Advocates could not be confirmed since the Council did not provide supporting fee notes.
- d) It was further observed that the Council when preparing the handing-over report failed to include other creditors amounting to Kshs.2,016,672.

Consequently, creditors' balance of Kshs.18,378,113 indicated in the handing-over report is inaccurate and cannot be relied upon.

Recommendation

Proper systems should be put in place to ensure accurate recording of creditors. Also, no creditors should be paid without properly establishing that a service/good was rendered or supplied to the Council and is fully supported.

3.27 Fixed Assets

The Town Council of Mwingi, according to the handing-over memorandum had assets amounting to Kshs.80,844,882 as at 28th February, 2013 and included Kshs. 1,944,000 for motor vehicles and motor cycles. However, the Council did not code all its assets or indicate their locations, making it impossible to confirm existence of the assets.

Recommendation

All assets transferred from the former Council should be properly coded, recorded and secured by the County Government.

3.28 Revenue Collection

The Council continued collecting revenue after 28 February 2013 and banked the same in its General Rate Fund account held at Kenya Commercial Bank. The revenue collected and banked in these accounts from 1 March to 30 April 2013 amounted to Kshs.15,789,788. The Transition Authority was also collecting revenue using receipt books of the former Council without officially taking-over the receipt books. There was no well demarcated line between the transactions under the former Local Authority and the incoming County Government. The revenue collected amounting to Kshs.15,789,788 was collected using unofficial receipt books and proper accountability of the same could not be confirmed.

Recommendation

All receipt books used to collect revenue after 28th February 2013 and unused receipt books should be reconciled to confirm that all receipt books were handed over to the Transition Authority and that none was used to collect revenue irregularly. Also, proper systems should be put in place to enhance accountability of revenue collections.

3.29 Procurement of Goods/Services

The Council procured receipt books from a supplier on various dates at a cost of Kshs.360,000 through direct procurement without satisfying requirements of the Public Procurement and Disposal Act, 2005.

Recommendation

All procurements by the County should be done in accordance with the laid down procurement procedures.

3.30 Expenditures

Payments made by Council against no Approved Budget

The Council made payments totaling to Kshs.7,434,793 from Salaries and GRF accounts after 28 February 2013 as shown below:

| Particulars | | Amount (Kshs) |
|--------------------|---|-------------------------|
| Salaries Account | - | 4,132,364 |
| GRF account | - | <u>3,302,429</u> |
| Total | - | <u>7,434,793</u> |

The payments were mainly for salaries and other miscellaneous expenses. However, it was not possible to confirm that the expenditures had been budgeted and approved.

Recommendations

The County Treasury should ensure that all expenditure are accounted for and are incurred in accordance with the approved budgets.

3.31 Conclusion

I wish to thank the management of Kitui County for their cooperation and assistance extended to my staff during the period of this important audit assignment.

A handwritten signature in dark ink, appearing to read 'E. R. O. Ouko', with a stylized flourish at the end.

Edward R. O. Ouko, CBS

AUDITOR-GENERAL

13 January 2014