

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

REPORT

OF

THE AUDITOR–GENERAL

ON THE

FINANCIAL OPERATIONS

OF

THE COUNTY GOVERNMENT OF
MANDERA AND ITS
DEFUNCT LOCAL AUTHORITIES

FOR THE PERIOD
I JANUARY TO 30 JUNE 2013

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

EXECUTIVE SUMMARY

1.0 Introduction

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 The County Government Act, 2012 Section 134 (1) repealed the Local Government Act, Cap 265, and thus effectively dissolving all the 175 Local Authorities and creating 47 County Governments.

1.2 According to Transition to Devolved Governments 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 Governments. 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.

2.0 Audit Objectives

The audit covered the Mandera County Executive and County Assembly, the former Town Council of Mandera and the former County Council of Mandera transactions for the period 1 January to 30 June, 2013 and took into account transactions before, during and after the transition period. The terms of reference set for the audit included verifications and confirmations of transactions in respect to but not limited to the following areas:

- ✓ The taking- over of the former Local Authorities
- ✓ Cash and bank balances
- ✓ Current debtors and suppliers balances
- ✓ Motor vehicles and office equipment
- ✓ IPPD Payroll and establishment
- ✓ Recurrent and development expenditure items
- ✓ Procurement and procurement procedures

2.1 The audit teams faced several constraints during the audits, including delay in getting various documents and non-availability of key staff of the former Local Authorities. These constraints resulted in delay in concluding the audits within the planned timelines.

2.0 Key Audit Findings

Mandera County Executive and Assembly

3.1 Failure to take over the Defunct County Council and Town Council of Mandera

The County Government of Mandera had not taken over the assets and liabilities of the former County Council and Town Council of Mandera as at the time of audit conclusion on 25 September, 2013. As such, the County Government had no basis of opening balances to be recorded in its books of account. The Transition Authority should ensure that accurate statement of assets and liabilities as at 28 February, 2013 is prepared to facilitate the handing over/taking over process.

3.2 Procurement of Goods and Services

i. Irregular Purchase/Modification of New Motor Vehicles

The County Government procured ten (10) vehicles at a cost of Kshs.80,098,309 on 22 May 2013 and 20 June 2013. A further amount of Kshs.4,102,920 was paid in diverse dates in June 2013 to a garage based in Nairobi for modification of the vehicles. The vehicles were procured through direct method instead of open tendering. The tender committee did not prepare the required specifications of the motor vehicles prior to the purchase, resulting to immediate modification after the purchase and incurring of avoidable expenditure. Local Purchase Orders (LPO's) for the ten vehicles purchased were not provided for audit review. The Public Procurement and Oversight Authority (PPOA) was not notified of the direct purchase of the motor vehicles. The vehicles were also not inspected by the mechanical engineer's department to confirm quality. The vehicles were not recorded in the Fixed Assets Register and log book for GK A711D had not been issued to the County Government as at the time of the audit.

ii. Irregular Procurement of Goods and Services

Goods and services totalling Kshs.49,102,630 were procured during the period under review through direct method and included five (5) generator sets worth Kshs.7,050,000, computers and other accessories worth Kshs.8,292,000 and installation of telephone system, CCTV and networking of the County Government offices at a total of Kshs.5,500,000. There was no evidence to show that the technical department was involved and a certificate of service delivery issued before the payments were made. Further, the generator sets bought were lying idle in an open yard at the County offices compound, three (3) months after they were procured.

iii. Irregular Procurement and Payment of Office/ Residential Rent

The Mandera County Government spent Kshs.10,534,000 to pay rent for offices and residential houses occupied by the Governor and his Deputy. A payment of

Kshs.4,600,000 was made on 17 May 2013, being rent for the months of June and July, 2013 at a rate of Kshs.2,300,000 per month. Ownership of the premises could not be confirmed since a copy of the letter of allotment and approved architectural plan were not made available for audit review. The expenditure was incurred after reallocation of funds from refurbishment of non-residential buildings to rent without prior authority, contrary to Section 154(2) (B) of the Public Finance Management Act, 2012. Further, the Deputy Governor drew house allowance despite the residential house being rented for him. Also, the County Government rented five (5) rooms at National Drought Management Authority but no lease agreement was signed between the two parties and no valuation was done to establish that the rent paid was commensurate with the rooms occupied. A total of Kshs.584,000 was spent on the rented rooms in May and June, 2013.

iv. Unaccounted for Goods and Services

Goods and services totalling Kshs.23,165,099 were procured on diverse dates during the period under review, but no quotations were raised for the same. Also, there were no stores ledgers maintained and hence the goods paid for were not taken on charge. As a result, it was not possible to confirm value for the money spent by the County Government.

All future procurement of goods and services should be done in accordance with the Public Procurement and Disposal Act, 2005 and related 2006 Regulations to ensure full accountability and fairness in the whole process.

v. Unaccounted for Fuel

Fuel costing Kshs.8,158,772 was procured during the month of June, 2013 but was not taken on charge on the bulk fuel register. Further, detail orders, delivery notes and vehicles' work tickets were never maintained to account for the fuel. Fuel like any other stores should be taken on charge in the bulk fuel register, preferably at the point of receipt and detail orders, delivery notes and vehicle' work tickets should be properly maintained.

3.3 Irregular Payment of Allowances

(i) Unsupported Travel & Subsistence Allowances

An expenditure of Kshs.9,299,163 was incurred on travel costs and subsistence allowances paid to persons who were performing official duties outside their work stations. Payment schedules were not signed by the payees, while some payments were not supported with travel documents like work tickets, bus tickets or air tickets. Propriety of the expenditure could not be confirmed. The County Government should ensure that all expenditures conform to the requirements of financial regulations and procedures and ensure that all payments are properly supported.

(ii) Unsupported Payment of Wages

An amount of Kshs.2,626,000 was paid as wages for casuals engaged by the County Government from March to June, 2013. However, there were no muster rolls for recording the casuals' daily attendance and activities. Although a head count was conducted by the Interim Human Resource Officer, all the sub-counties were not covered and therefore the exact number of casuals working in various stations is not known. A head count should be conducted to confirm that the casuals being paid actually exist. Also, a muster roll should be introduced to record the daily attendance and activities of the casuals.

(iii) Unaccounted for Sitting Allowances

Payments of Kshs.2,291,200 and Kshs.1,821,560 were made to the clerk of the County Assembly and the Principal Finance Officer, respectively in May and June 2013, in respect of sitting allowances to the members of the County Assembly. The payment of Kshs.2,291,200 was not supported with payment schedule hence not accounted for. However, payment for Ksh.1, 821,560 was supported by a schedule which was not signed by the members as an acknowledgement of the money received. All payments must be properly supported as required by the financial regulations and procedures in force.

3.4 Other Audit Observations

(i) Hire of Transport Services

The County Government hired various motor vehicles using direct procurement method and incurred expenditure of Kshs.2,726,400 contrary to the laid down regulations. Some of the payment vouchers were not supported by relevant documents like quotations, while in some instances, description and registration numbers of the vehicles hired were not disclosed. No temporary work tickets were maintained for the hired vehicles to establish how they were used. There were no contract agreements signed between the vehicle owners and the County Government. The laid down procurement methods and procedures should be followed on hire of transport and relevant documents should be obtained before entering into any contract.

(ii) Irregular Payment of Flight Expenses

The County Government paid a total of Kshs.3,000,000 to two Travel Agencies in respect of hire of chartered flights. The payments were supported by invoices from the airlines but lists of persons transported, the dates and the purpose of hiring the flights were not provided. There was no evidence availed to show that competitive bidding was done to source for the service. The County Government should adhere to the procedures stipulated in the Public Procurement and Disposal Act, 2005 and related 2006 regulations when procuring goods and services.

(iii) Repair of Motor Vehicle Expenses

An expenditure of Kshs.1,350,452 was incurred on repair of motor vehicles. The repairs were however, not recorded in the vehicles log book since they were not maintained. The vehicles were not inspected before and after the repairs to determine the estimated cost and to confirm that the repairs were carried out as per the inspection report. All vehicles should be inspected before and after major repairs are carried out and before effecting any payment. Repairs carried out should be recorded in the vehicles' log books.

(iv) Expenditure on Security Personnel

An amount of Kshs.1,839,700 was used to pay security personnel guarding the County Government offices, the Governor and his Deputy's residences. The list of security personnel hired for the County Government was not made available for audit and schedules supporting the expenditure were not signed by the security personnel as proof or acknowledgement of the payments. In one case, a payment voucher reflected Kshs.244,000 while the supporting schedule had Kshs.172,000, resulting to an explained difference of Kshs.72,000.

Proper controls should be put in place to ensure that funds are used for the intended purposes.

(v) High Turn-over of County Chief Officers

The County Government operated without key chief officers who left before the audit exercised commenced. These included Chief Finance Officer, County Secretary and Head of Procurement. This made it difficult for the audit team to get some crucial documents and information about the County. No explanation was provided for the unusual high turn-over within a very short period.

3.5 IFMIS and G-Pay

The Integrated Financial Management Information System (IFMIS) had not been installed at the County by the time of audit in September, 2013. All payments were, therefore, made manually. It is important that immediate action is taken to address connectivity challenges to enable full implementation of IFMIS and G-Pay systems which are aimed at improving financial management within the County.

Defunct County Council of Mandera

3.6 Improper Handing Over to the County Government

The handing over report forwarded to the County Government on 27th April 2013 did not reflect the true position of the assets and liabilities transferred to the County Government. The handing over report was not signed by both the Clerk to the Council and officials of Transition Authority. Office equipment which should have been serially numbered had no serial numbers while other assets were not

coded. The report did not indicate bank accounts held by the former Council. The County Government/Transition Authority should ensure that former chief officers of the defunct Local Authority properly hand over the Council's assets and liabilities as at 28 February, 2013.

3.7 Current Assets and Liabilities

i) Cash and Bank Balances

(a) Closure of bank accounts

The defunct County Council of Mandera management continued to operate eight (8) bank accounts with balances totaling to Kshs.1,426,471 as at September, 2013, contrary to requirements of the County Governments Public Finance Management Transition Act, 2013 that all bank accounts be closed within three months after the County Governments became operational, and moneys held therein transferred to the county revenue account.

(b) Maintenance of Cash Books

The defunct Council did not prepare main cash book as required by the financial regulations. The Receipts, LATF and petty cashbooks maintained were not balanced on daily basis and were not checked by senior officers for confirmation of accuracy and completeness. Also, the bank column of the receipts cashbook was not written, raising doubt on accuracy and completeness of the records.

(c) Non Preparation of Monthly Bank Reconciliation Statements

The defunct Council did not prepare monthly bank reconciliation statements for all the eight bank accounts operated, contrary should the government financial regulations and procedures which require that accounting units prepare monthly bank reconciliation statement for each bank account operated.

All the bank accounts should be confirmed closed and balances transferred to County revenue account. Complete sets of cash books should be maintained and accuracy and completeness of the entries confirmed by a senior official on a daily basis. Similarly, monthly bank reconciliation statements should be prepared for each cash book and accuracy confirmed by a senior official. Also, segregation of duties should be observed.

(d) Irregular/Unsupported Withdrawals

LATF and Survey & Planning accounts' bank statements showed that Kshs.4,582,338 was withdrawn from the bank accounts on diverse dates in February, March and April 2013. The amounts were used for payment of subsistence allowances to various staff, supply of goods and services and salary arrears to one member of staff. Two cheques for Kshs.767,338 and Ksh.900,000 were encashed on 27 February 2013 in Nairobi and various payment vouchers, some dated August, 2012 were presented to support the cheques

paid. An amount of Kshs.2,915,000 was withdrawn from Mandera but the payment had no supporting documents. Under the circumstances, the total amount of Kshs.4,582,338 was irregularly spent by the County Council. Withdrawals being made from the bank should be properly supported by payment vouchers and other documents duly authorized.

(e) Unauthorized Bank Over-drafts – LATF Account

Bank statements of the LATF account maintained at Equity Bank indicated that bank over-drafts of Kshs.2, 058,897 and Kshs.937,345 were realized on 16 February 2013 and 3 March 2013 respectively, but no Council resolution and approval of the same by the then Minister for Local Government was provided for audit review. The overdraft was, therefore, illegally obtained. Over commitment of financial resources resulting into expensive financing facilities to meet day to day obligations should be avoided. The laid down government financial procedures should be followed as necessary.

(ii) Debtors

A summary of the handing over report dated 18 April, 2013 indicated that the Council had over Kshs.100 million outstanding land rent and penalties as at 28 February, 2013. A schedule of plot rent attached to the handing over report showed Kshs.37,037,904 as plot rent arrears and penalties. The handing over report showed an amount of Kshs.3,298,400 for survey charge on Elwak plot applicants but did not show plot rent defaulters from the same location. However, plot rent registers from the same region showed rent arrears amounting to Kshs.21,985,617. The handing over report also showed that a Rest House owned by the Council was rented by an individual (name not indicated) who vacated the premises on 25th February, 2013 with unpaid rent amounting to Kshs.461,000. Also, rent of Kshs.600,000 due from Safaricom Company Ltd was not supported. It was therefore not possible to confirm the correct debtors' balance as at 28 February, 2013. A proper system for recording debtors should be developed to ensure accuracy and completeness of the records. A debt collection policy should be put in place to facilitate recovery of outstanding debts.

(iii) Creditors

The handing over report dated 18 April, 2013 showed creditor's balance of Kshs.14,534,479 but a re-computation of creditors' schedule attached to the report revealed a figure of Kshs.15, 034,479. The difference of Kshs.500,000 was not explained. Staff salary arrears of Kshs.2, 952,041, outstanding water bill of Kshs.900,000 for the Rest House and a balance of Kshs.21, 745,000 outstanding in respect of a project were excluded in the list of unpaid creditors. The figure disclosed in the report is therefore understated by a total of Kshs.26,097,041. Included in the creditor's balance of Kshs.14,534,479, is outstanding NHIF contributions of Kshs.30,000 which attracted automatic penalty of Kshs.150,000, being five times the outstanding amount. A further amount of Kshs.30,600 had not been paid to NHIF, being contributions for the months of February to April, 2013. Timely remittance of all statutory deductions should be

mandatory to avoid payment of penalties. Creditors' ledger should be updated and validated to reflect the correct balances. Authenticity of salary arrears should also be confirmed before payments are made.

3.8 Fixed Assets

Motor Vehicles

Five (5) vehicles valued at Kshs.3,950,000 were handed over to the county government on 18 April, 2013. Physical verification of the vehicles confirmed that all except one, KAV 336E located at Elwak Town, had been handed over to the County Government. However, vehicle Registration Number KAW 336W was not included in the handing over report forwarded to the County Government. No log books for all the vehicles were seen except KAW 676Z. It was, therefore, not possible to authenticate or validate ownership of the vehicles. Proper systems for recording of County assets should be put in place and ownership documents for the vehicles obtained and kept under safe custody.

3.9 Revenue Collections

(i) Unaccounted for Revenue

A reconciliation of revenue collected and banking done between December 2012 to February 2013 revealed under-banking of Kshs.4,357,461. Between the month of December 2012 to February 2013 an amount of Kshs.5,975,661 was collected while pay-in-slips presented for audit revealed that only Kshs.1,618,200 was banked. Further, the unbanked revenue was not accounted for. Proper systems should be put in place to ensure prompt revenue collection, recording and banking to avoid future loss or misappropriation.

ii) Maintenance of Revenue Books

A sample of two (2) copies of Counter Receipt Books Register (CRB) examined revealed that most of the receipt books issued for revenue collection had no dates of issue while names and signatures of the recipients were not indicated. Some of the receipt books were issued to civic leaders and most of them remained un-surrendered as at the time of the audit in September 2013. In addition, the completed receipt books were not entered in the Collection Control Sheet (CCS) since it was not maintained by the Council. Lack of adequate controls may lead to loss of revenue. Receipt books issued for revenue collection should be properly recorded in the CRB and outstanding receipt books surrendered to the County Government and revenue collected be fully accounted for.

3.10 Staff Payroll

i. Salary Increments

Basic salary for all Council employees was increased in the month of January 2013 with a total of Kshs.320,087 paid in the months of January and February, 2013 before the County Government took over the payroll in March 2013. As a result, a total of Kshs.640,174 was paid for the two months. The increase did not match with the scales outlined on the terms and conditions of service of the former Local Authorities which came into operation on 1 September 2012.

Only salaries supported by the right authority for increment should be paid and the same has to be reflected in the budget. An audit of the human resources should be conducted to ascertain the ideal staff requirements and identify any skill gaps for future recruitments.

ii. Unaccounted for Casual Wages

A payment of Kshs.900,000 was made to casual laborers on 27 February 2013 but the period the work was done was not indicated. Further, the payment voucher was not authorized by the Clerk to the Council and there were no muster rolls as evidence supporting work done by the casual laborers. Muster rolls should be maintained for casual workers and payments should be authorized in accordance with the financial regulations.

3.11 Other Audit Findings

a) Irregular Payment of Subsistence Allowances

Examination of LATF and Petty cash payment vouchers and other supporting documents revealed that an expenditure of Kshs.3,920,340 was incurred on subsistence allowances. However, most of the payment vouchers were; not authorized by the County Council Clerk, not approved by the Treasurer, not posted to the cash book and not signed by the Head of Accounts Department. In addition, some of the payment vouchers were not supported with travel documents as evidence of journeys made by the officials such as bus tickets or work tickets, invitation letters, workshops programs showing dates and venues where the workshops were held. Further, some of the payments were made to officers who were on official duties during the previous financial year, raising doubt on authenticity of such expenditure. All payments should be supported with valid and relevant documents.

b) Unsupported LATF Projects

The Council implemented capital projects worth Kshs.31,025,000 during the period under review, in respect to Education, Water and Health in various locations within Mandera County. Files for projects worth Kshs.10,925,000 were not made available for audit review, while files for projects worth Kshs.20,100,000 reviewed revealed that tender documents such as Bills of

Quantities (BQs), tender committee minutes, contract agreements, confidential business questionnaires were missing. In addition, some payments were made without certificates of completion and in some cases, full payments had been made to the contractors without deducting retention money as required by the procurement regulations. The County Government should adhere to the procedures stipulated in the Public Procurement and Disposal Act, 2005 and related 2006 regulations, when procuring goods and services.

c) Unaccounted for Fuel and Building Materials

20,600 litres of Diesel and building materials worth Kshs.2,884,000 and Kshs.478,700 respectively were supplied to the Council on 27 February, 2013. However, there were no detail orders, delivery notes and vehicle's work tickets to confirm the usage and taking of the fuel on charge. The building materials bought were also not taken in charge on the stores ledgers. Under the circumstances, it was not possible to confirm proper usage of the funds. The County Government should adhere to the procedures stipulated in the Public Procurement and Disposal Act, 2005 and related 2006 regulations, when procuring goods and services.

d) Expenditure on Legal Services

A payment of Kshs.1,519,985 was made to a firm of advocates on 27 February 2013, being fees for legal services rendered on behalf of the Council. The Council did not produce subject files containing correspondences with the legal practitioner and it was therefore not possible to establish how the legal firm was identified for the contract. Further, the specific legal services provided were not indicated. The County Government should adhere to the procedures stipulated in the Public Procurement and Disposal Act, 2005 and related 2006 regulations when procuring services. In addition, subject files for all contracts should be maintained by the County Government and payments should only be made for services rendered to the County.

e) Repair of Motor Vehicles

During the period under review, the Council spent Kshs.1,120,420 on repair of motor vehicles. However, the repairs were not recorded on the log books, and pre and post inspections were not done to ascertain the required repairs and those carried out. In view of the above, it was not possible to ascertain that payment of Kshs.1,120,420 was made for services rendered. All vehicles should be inspected prior to repairs to identify the mechanical problems and to confirm repairs carried out on the vehicles. All repairs should be recorded in vehicles log books to enhance accountability.

f) Unaccounted for Goods and Services

The Council incurred various administration expenses totalling Kshs.746,280 in respect to purchase of seedlings and hire of motor vehicles for monitoring and evaluation exercises. However, the items bought were not taken on charge in

stores ledgers and usage of the same could not be confirmed as there were no issue notes indicating the point of usage. The hired motor vehicles were single sourced and there was no tangible evidence to confirm that they were used on official duties.

g) Budget for 2012/2013

The Council did not present for audit, a copy of the budget for the year 2012/2013 and no proper explanation was given for the omission. As a result, it could not be ascertained whether expenditure incurred by the Council was budgeted for.

Defunct Town Council of Mandera

3.12 Improper Handing Over to the County Government

There was no proper handing over of the former Town Council of Mandera's assets and liabilities to the Transition Authority as required by the Ministry of Local Government Circular of 18 February, 2013. As result, the County Government has no records of assets and liabilities owned by the former Town Council as well as other outstanding debts. The Transition Authority should arrange for proper handing over of assets, liabilities and staff of the former Town Council to the County Government to enable the County Government have a basis of opening balances to be reflected in its books of account. The handing over report should also include details of loans held by the former Council.

3.13 Current Assets and Liabilities

(i) Cash and Bank Balances

(a) Closure of Bank Accounts

Audit scrutiny of bank statements maintained by the former Town Council revealed that the management continued to operate six (6) bank accounts with balances totalling Kshs.346,419 up to September, 2013, whereas all bank accounts ought to have been closed and money transferred to County revenue account. The transfer of balances from the closed bank accounts should be confirmed with relevant documentation.

(b) Maintenance of Cash Books

The Council did not maintain a main cash book, contrary to requirements of financial regulations and procedures. However, the Council prepared a Receipts, LATF and petty cashbooks which were not balanced on a daily basis and were not checked by senior officers for confirmation of accuracy and completeness. Bank column of the receipts cashbook was not written, therefore ignoring the double entry concept. The financial regulations and procedures should be

adhered to and all cash books written-up, updated and checked by a senior official on a daily basis.

(c) Non-Preparation of Monthly Bank Reconciliation Statements

The Council did not prepare monthly bank reconciliation statements for all the bank accounts held as at 28 February, 2013, contrary to requirements of government financial regulations and procedures. Monthly bank reconciliation statement for each bank account held should be prepared to facilitate early detection of any fraudulent transactions and timely correction of errors.

(d) Bank Overdraft/ Inter-Bank Borrowings

Audit of the former Council's bank statements revealed that Salary Account maintained with Equity Bank reflected an overdraft balance of Kshs.483,989 brought forward from the month of December 2012. On 3 January 2013, an amount of Kshs.442,500 was transferred from LATF Account (KCB) to the Salary Account as a way of regularizing the account. On 5 January and 6 April 2013, amounts of Kshs.961,305 and Kshs.1,521,904 were withdrawn from the Salary Account vide cheques No.00279 and No 000281 respectively, but with no supporting payment vouchers. These withdrawals and inter borrowing were not sanctioned by the Council as no minute was availed to support the same. It was further noted that no Ministerial approval was sought before the action was taken. Further, in the absence of supporting payment vouchers, proper use of the funds could not be confirmed.

The County Government should employ prudent financial management practices to ensure no over commitment of funds beyond its capability. The laid down government financial regulations and procedures should be followed.

(ii) Creditors

The Council did not provide details of creditors it owed as at 28 February, 2013 as there was no handing over report. However, examination of payment vouchers revealed that the Council made payments totalling Kshs.8,583,959 to various staff, casuals, local suppliers, Statutory Institutions and lawyers in the months of February and March, 2013. The payments were however not supported with any verifiable documentation. No approval should be given for expenditure not properly supported, and payments should only be made for goods supplied or services rendered to the County.

3.14 Fixed Assets

Motor Vehicles

Records seen indicated that the defunct Town Council owned four motor vehicles (KAW 850Z Nissan type, KAV 816E Land Rover, KAX 020 Hilux Alcab, and KAB 270Q Land rover fire engine), a Motor Cycle (Yamaha) KBL 024L, and a Tractor KAT 510X. All the vehicles had not been handed over to the County Government

as at the time of the Audit in September, 2013. The Town Council did not maintain a summary of vehicles' work tickets. Log books for the above vehicles were also not made available for audit review, contrary to the existing regulations. It was therefore not possible to confirm ownership of the vehicles by the former Town Council.

3.15 Procurement of Goods, Works and Services

i) Irregular Procurement - LATF Projects

The Council implemented capital projects amounting to Kshs.14,492,738 during 2012/2013. Subject files for the projects were not made available for audit review. The payment vouchers were not supported with Bills of Quantities and other tender documents. It was therefore not possible to confirm that procurement law and regulations were observed and goods and services competitively sourced. LATF payment cash book revealed that the County Government irregularly spent a total of Kshs.8,375,718 from LATF funds between 02 February to 21 May 2013 on subsistence allowances, procurement of goods and services and payment of casual wages without authority to allocate project funds. Further, three (3) projects for 2012/2013 costing a total of Kshs.14,000,000 had not been implemented as at the time of audit in September, 2013.

ii) Unaccounted for Goods and Services

The Council procured various goods and services worth Kshs.454,000 in the months of January and February 2013. However, the services were single sourced, contrary to the procurement law and regulations. Further, 100 bags of cement purchased were not taken on charge on the stores ledgers and no issue notes indicating the point of use were seen. The list of people paid for cleaning services was not attached to the payment voucher and therefore, it was not possible to establish whether the rightful payees were paid while demolition works done in the Town could not be quantified in the absence of bills of quantities or Local Service Order. Consequently, expenditure of Kshs.454,000 incurred could be confirmed to be proper charge on public funds.

The County Government should adhere to the procedures stipulated in the Public Procurement and Disposal Act, 2005 and related 2006 Regulations, when procuring goods and services and no funds should be re-allocated before obtaining authority for the same.

3.16 Collection of Revenue

Revenue not accounted for

A scrutiny of revenue receipt books for the months of December, 2012 to February, 2013 revealed that an amount of Kshs.4,734,901 was collected by the Council. However, pay-in-slips presented for audit indicated that only Kshs.307,800 was banked, resulting to an under banking of Kshs.4,427,101

which has not been reconciled or explained. The County Government should put proper systems in place to enhance accountability of revenue collection and banking. All money collected should be banked intact as required by the Public Finance Management Act, 2012.

3.17 Other Audit Findings

a) Unsupported Payment of Subsistence/Lunch Allowances

Examination of payment vouchers and other supporting documents revealed that expenditure totalling Kshs.4,026,949 was incurred on payment of subsistence allowances on diverse dates between December 2012 to February, 2013. However, dates of travel, names of officers/beneficiaries and purpose of the travelling were not attached. As a result, propriety of the expenditure could not be confirmed. All payments must be properly supported with relevant documents. Payments which are not fully supported should not be authorized.

b) Unsupported Payment of Salaries and Councilors' Allowances

Examination of payment vouchers revealed that the former Council paid staff salaries and councilors' allowances amounting to Kshs.569,567. However, the payment vouchers were not supported by the payrolls of both the staff and civil leaders. In the absence of the payrolls, it could not be established whether the staff paid belonged to the Council and that the expenditure was incurred for the intended purpose. Payment of salaries and other allowances should be supported by relevant documents.

c) Non Functional Internal Audit Department and Audit Committee

The former Council had a weak internal audit department with only one staff. There were no internal audit reports made available to assess effectiveness of the Department in assisting management. Further, no Audit Committee was in place and therefore, there were no checks and balances on Council operations. It is recommended that internal audit function be strengthened and Audit Committee put in place to enhance checks and balances and good governance within the County.

3.18 Conclusion

The foregoing observations clearly indicate that the process of taking over of assets and liabilities, including staff of the former Councils 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 framework to be developed by the Public Sector Accounting Standards Board.

Expenditure should be incurred in accordance with the requirements of the Public Finance Management Act, 2012 and for the benefit of the tax payers.

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

A handwritten signature in black ink, appearing to read 'E. O. Ouko', is written over a light grey rectangular background.

Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

20 February 2014

DETAILED AUDIT REPORT ON OPERATIONS OF COUNTY GOVERNMENT OF MANDERA AND ITS DEFUNCT LOCAL AUTHORITIES

1.0 Introduction

This report covers the operations of County Government of Mandera, comprising the Executive, County Assembly, defunct County Council and Town Council of Mandeara. The Local Authorities ceased operations upon enactment of the County Governments 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 transition 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

Mandera County Executive and Assembly

3.1 Failure to Take Over Defunct Local Authorities

The County Government of Mandera had not taken over the assets and liabilities of the former County Council and Town Council of Mandera as at the time of audit conclusion in September, 2013. The County Government continued utilizing the assets, some of which were income generated although ownership of the assets had not been transferred from the former local authorities.

Recommendation

The County Government should ensure that an accurate statement of assets and liabilities as at 28 February 2013, is prepared upon which the handing and taking over should be effected. This will enable the County Government have a basis for opening balances to be recorded in the books of account.

3.2 Procurement of Goods and Services

i) Irregular Expenditure on Purchase/Modification of New Motor Vehicles

Ten (10) vehicles were procured at a cost of Kshs.80,098,300 vide payment vouchers No.60 and 128 both dated 22/5/013 and 20/6/013 respectively. A further amount of Kshs.4,102,920 was spent to modify the vehicles at a garage in Nairobi. The following unsatisfactory matters were noted:

- Direct procurement method was used instead of open tendering method.
- The decision to use direct procurement method was supported by tender committee minutes of 15 May, 2013. The minutes were however not endorsed by both the tender committee Chairman and Secretary, contrary to Section 34(1) of the Public Procurement and Disposal Act, 2005.
- The County Government did not prepare specifications of motor vehicles required. The vehicles were therefore modified immediately after the purchase resulting to additional avoidable expenditure.
- Public Procurement Oversight Authority (PPOA) was not notified of the direct procurement of vehicles, contrary to Section 62(3) of the Public Procurement and Disposal Regulations, 2006 which requires that any purchase of over Kshs.500,000 through direct procurement method be reported to PPOA within fourteen (14) days from the date of notification of award.
- There was no contract agreement between the firm that was awarded the tender and the County Government of Mandera regarding purchase of vehicles as required by Section 68 of the Public Procurement Act, 2005.

- There was no inspection report from the mechanical department to confirm quality of the vehicles delivered as required by Government Financial Regulations and Procedures Chapter 19.13.
- The vehicles were not recorded in the Fixed Assets Register.
- The vehicles were registered in GK numbers B711D, B724D, B725D, B726D, B727, B728D, B776D, B777D, B778D and B786D. All the log books were available for audit except for GK B711D which had not been issued as at the time of audit.
- All the vehicles were physically verified except GK B727D which was in Nairobi by the time of audit.
- The vehicles started operating in the month of June, 2013 without the use of work tickets (GP.26). Only two (2) vehicles i.e GK B724D and B776D had work tickets in the month of July, 2013 and the remaining eight (8) vehicles continued operating without work tickets. As a result, official usage of the vehicles could not be confirmed.

Due to the above reservations, although the vehicles are being used by the County Government, it is not clear why procurement procedures were not followed while acquiring the vehicles.

ii) Irregular Procurement of Goods and Services

Examination of payment vouchers and other records revealed that goods and services costing a total of Kshs.49,102,630 were procured during the period under review. In some cases, the goods were irregularly procured as highlighted below:

- a)** Five (5) generator sets worth Kshs.7,050,000 were procured using direct method of procurement, contrary to section 74(2) and (3) of the Public Procurement and Disposal Act, 2005. The payment was supported by a Local Service Order which had no quotation number or tender number and not signed by the relevant officials. It was further noted that no asset register was maintained hence the generator sets were not recorded. The generator sets were lying idle in an open yard at the county offices compound, three (3) months after they were procured, implying that the generators were procured without a plan.
- b)** Computers and other accessories worth Kshs.8,292,000 were also procured through direct method. The payment was supported by an L.P.O and invoice which did not show the serial numbers of the computers procured. The office did not maintain asset registers and hence the items were not recorded.
- c)** A payment of Kshs.5,500,000 was made to a merchant in respect of installation of a telephone system, CCTV and networking of the County

Government offices. Direct procurement was used as opposed to open tendering method as required by the procurement regulations. There was no evidence to show that the relevant technical department was involved in the procurement process and no certificate of service delivery was issued before the payment was made.

- d) It was observed that various goods and services amounting to Kshs.23,165,099 were procured during the period under review. The goods and services were procured without raising quotations as required by procurement regulations. There were no store's registers or store's ledgers maintained for recording or taking the goods on charge. As a result, it has not been possible to confirm that the County Government got value for money spent.

iii) Irregular Procurement and Payment of Office/ Residential Rent

Examination of payment vouchers revealed that the county government spent Kshs.10,534,000 to pay rent for offices and residential houses occupied by the Governor and Deputy Governor. However, the following anomalies were noted:-

- a) A payment of Kshs.4,600,000 made vide payment voucher No.32 of 17/5/013 was for the month of June and July 2013 rent at a monthly rate of Kshs.2,300,000, which was relatively expensive.
- b) A copy of the letter of allotment for the land owner and approved architectural plan were not made available for audit confirmation of ownership of the premises.
- c) The rental valuation report done by a valuer and made available for audit was not certified by the then Ministry of Public Works.
- d) The expenditure incurred of Kshs.4,600,000 was as a result of a reallocation made from refurbishment of non-residential buildings to rent, without prior authority and contrary to Section 154(2)(B) of the Public Finance Management Act, 2012.
- e) The Deputy Governor drew house allowance and also had the residential house rented for him.
- f) The County Government rented five (5) rooms at National Drought Management Authority's building. However, there was no lease agreement and no valuation done to establish whether the rent paid was commensurate with the rooms occupied. Consequently, propriety of the expenditure incurred on rent could not be confirmed.

iv) Unaccounted for Fuel

Examination of payment vouchers revealed that fuel amounting to Kshs.8,158,772 was procured from various suppliers on diverse dates during the

month of June, 2013. The fuel was not taken on charge on the bulk fuel register since the fuel register was not maintained during that month. Further, it was noted that detail orders, delivery notes and vehicles' work tickets were not maintained to ensure the fuel was fully accounted for. Therefore, it could not be confirmed that fuel paid for was used for provision of services to the County Government.

3.3 Irregular Payment of Allowances

i) Irregular and Unsupported Travel & Subsistence Allowances

Examination of payment vouchers and other supporting documents relating to travel and subsistence allowances revealed that expenditure totalling Kshs.8,537,163 was incurred on travel cost and subsistence allowances paid on diverse dates during the months of May and June 2013 to persons who were performing official duties outside their working stations. The payments were however not supported with payment schedules signed by the payees as evidence of receipt of the funds and travel documents, i.e. work tickets, bus tickets or air tickets.

Recommendation

The County Government should adhere to the laid down financial regulations and procedures regarding payment of travel and subsistence allowances and ensure all payments are supported with valid and relevant documents.

ii) Irregular Payment of Casuals

The audit revealed that an amount of Kshs.2,626,000 was paid as wages for casuals engaged by the county government from March, 2013 to June, 2013. A scrutiny of casuals' records revealed that no muster rolls for recording the casuals' daily attendance and activities were maintained to confirm that they worked for the wages they were paid for. It was further noted that although there was a head count conducted by the Interim Human Resource Officer, all the sub-counties were not covered and therefore, status of the number of casuals working in the various stations could not be confirmed. The payments were made as shown below:

No. of Casual Workers	Month	Amount (Kshs.)
80	March, 2013	439,000
104	April, 2013	475,500
-	May, 2013	832,500
124	June, 2013	<u>879,000</u>
Total		<u>2,626,000</u>

Recommendation

A comprehensive survey should be carried to confirm the number of casuals required by the County. Also, a master roll for recording daily attendance by the casuals should be introduced to ensure that the management pays only for the days the casuals work.

iii) Unaccounted for Sitting Allowances

Payments of Kshs.2,291,200 and Kshs.1,821,560 were made to the Clerk of the County Assembly and the Principal Finance Officer vide payment vouchers No.403 and 52 respectively, in May, 2013. The payments were in respect of sitting allowances to members of the County Assembly. The payment of Kshs.2,291,200 was not supported with a payment schedule and hence not properly accounted for. Payment voucher No.52 for Kshs.1,821,560 was supported by a schedule of payments which was not signed by the members as evidence of receipt of the funds. A copy of the register indicating the dates that the committee members had the meetings was also not made available for audit review. As a result, the expenditure was irregularly incurred.

Recommendation

All payments must be properly supported and expenditure should only be incurred for services rendered.

3.4 Other Findings

Hire of Transport Services

Examination of payment vouchers revealed that the County Government paid Kshs.2,726,400 for hiring various motor vehicles during the months of May and June, 2013. The following anomalies were noted:-

- a) The vehicles were hired using direct procurement method, contrary to existing regulations.
- b) The tender committee endorsed the used of direct method. However, the minutes were not signed by both the Chairman and the Secretary and therefore, authenticity of the minutes could not be verified.
- c) Some payment vouchers were not supported by relevant documents like quotations.
- d) In some instances, description and registration numbers of the hired vehicles were not disclosed.
- e) There was no temporary work tickets maintained for the hired vehicles and therefore, official usage could not be established.

- f) Copies of insurance covers for the vehicles and driving licenses for the drivers were not attached.
- g) There were no contract agreements signed between the vehicle owners and the County Government. It was therefore not possible to establish whether the vehicles were hired using a dry rate or wet rate.

Due to the foregoing, propriety of the expenditure could not be confirmed.

Recommendations

- i. The County Government should adhere to the procedures stipulated in the Public Procurement and Disposal Act, 2005 and related 2006 regulations when procuring all types of goods and services.
- ii. All goods procured should be recorded in relevant records like fixed assets register and stores ledgers
- iii. Fuel like any other stores should be taken on charge in the bulk fuel register immediately, preferably at the point of receipt and ensure that detail orders, delivery notes and vehicle's work tickets are properly maintained.
- iv. The use of the fuel should be investigated and the expenditure be fully accounted for.

(ii) Irregular Payment of Flight Expenses

The County Government paid Kshs.2,000,000 and Kshs.1,000,000 to two Travel Agents in the month of June, 2013 in respect of hire of charter flights for use by County officials. The invoices from the airlines, list of persons transported, the dates and the purpose of hiring the flight were not provided. There was no evidence availed to show that competitive bidding was done to source for the services. Expenditure amounting to Kshs.3,000,000 was therefore not properly incurred.

Recommendation

The County Government should adhere to the procedures stipulated in the Public Procurement and Disposal Act, 2005 and related 2006 regulations when procuring goods and services.

(iii) Repair of Motor Vehicles

Examination of payment vouchers revealed that an expenditure of Kshs.1,350,452 was incurred on repair of motor vehicles. The repairs were however, not recorded in the vehicles' log books since they were not maintained. The vehicles were not inspected before and after the repairs to determine the

estimated cost of repairs and to ensure that the repairs are carried out as per the inspection reports.

Recommendation

All vehicles should be inspected before and after major repairs are carried out and repairs recorded in the vehicles' log books.

(iv) Expenditure on Security Personnel

Examination of payment vouchers revealed that on 28 June 2013, an amount of Kshs.1,839,700 was used to pay security personnel guarding the County Government Offices, the Governor's and his Deputy's residences. However, the following observations were made:-

- a) The schedules attached to the payment voucher were not signed by the security personnel as a proof or acknowledgement of the payments and had no Identity Card (ID) numbers of the payees.
- b) The list of security personnel hired under the County Government was not made available for audit verification. The period covered was also not indicated for some of the payments.
- c) In one instance the amount on the payment voucher of Kshs.244,000 differed with that indicated on the payment schedule of Kshs.172,000 by Kshs.72,000.
- d) No muster roll for the temporary security personnel engaged by the county government was maintained.
- e) The payee indicated in the payment vouchers in all the cases was Principal Finance Officer.

It was therefore not possible to confirm that the money was received by the personnel listed in the schedule attached to the payment voucher.

Recommendation

The County Government should ensure that proper controls are put in place to prevent payments being made to ghost workers.

(v) High Turn-over of County Chief Officers

The County Government operated without key chief officers who left before the audit exercise commenced. These included Chief Finance Officer, County Secretary and Head of Procurement. This made it difficult for the audit team to get some crucial documents and information about the County. No explanation was provided for the high turn-over of the Chief Officers within a very short period.

3.5 Integrated Financial Management Information System (IFMIS) and G-PAY

Integrated Financial Management Information System (IFMIS) had not been installed at the County by the time of the audit in September, 2013. Therefore, all payments were done manually.

Recommendations

Installation of IFMIS should be fast tracked to facilitate prudent financial management that the system was intended to provide.

Defunct County Council of Mandera

3.6 Improper Handing Over to the County Government

A handing over report was prepared on 18 April, 2013 and was forwarded to the county government by the Deputy Clerk, County Council of Mandera vide unreferenced letter dated 27 April, 2013. The handing over report did not reflect the true position of the assets and liabilities transferred to the County Government as a number of information in respect of debtors, creditors and other fixed assets were missing.

Recommendation

The County Government should ensure that former Chief Officers of the defunct local authority prepare a comprehensive handing over report which should also include loans held by the former Council.

3.7 Current Assets and Liabilities

(i) Cash and Bank Balances

(a) Closure of Bank Accounts

Examination of bank statements revealed that the county council management continued to operate eight (8) bank accounts previously held up to September, 2013. The balances held in the accounts as at September 2013 were Kshs.1,091,595.30 as shown below:

Bank	Account Name	Account Balances/ Remarks
1. KCB	LATF	Closed
2. KCB	GRF	Closed
3. Equity	Salaries	1,080,696.30 CR
4. Equity	LATF	7,068.51CR
5. Equity	Project	294.44DR
6. Equity	Survey & Planning	229.45CR
7. Equity	Kazi Kwa Vijana	3,895.45CR
8. KCB	Savings	-
Total		1,091,595.30

Recommendation

All bank accounts should be closed and unspent balances transferred to the county revenue account.

(b) Cash Books

The Council did not maintain a main cash book, contrary to requirements of financial regulations and procedures. However, it was observed that the Council prepared a Receipts, LATF and Petty cashbooks which were not balanced on a daily basis and were not checked by a senior official for confirmation of their accuracy and completeness. It was also noted that the receipts cashbook bank column was not written, therefore ignoring the double entry accounting concept.

Recommendation

The financial regulations and procedures should be adhered to and all cash books written, updated and checked by a senior official on a daily basis.

(c) Non Preparation of Monthly Bank Reconciliation Statements

The Council did not prepare monthly bank reconciliation statements for all the accounts held, contrary to the requirements of government financial regulations and procedures.

Recommendation

Monthly bank reconciliation statements for each bank account held should be prepared to facilitate early detection of any fraudulent transactions and correction of errors. Accuracy of the reconciliations should be confirmed by a senior official.

(d) Irregular/Unsupported Withdrawals

Examination of bank statements for LATF and Survey & Planning accounts revealed that Kshs.4,582,338 was withdrawn from both bank accounts on various dates as shown below:-

Date	Amount (Ksh.)	Cheque No.	Remarks
27/2/2013	767,338	000269	En-cashed at Team Room – Nairobi
27/2/2013	900,000	000270	En-cashed at Team Room – Nairobi
8/3/2013	320,000	-	Cash withdrawal at Mandera
22/3/2013	460,000	-	Cash withdrawal at Mandera
27/4/2013	100,000	-	Cash withdrawal at Mandera
23/4/2013	2,035,000	-	Cash withdrawal at Mandera
Total	4,582,338		

The funds were used for payment of subsistence allowances to various staff, suppliers of goods and services and salary arrears to one staff. However, Cheques No.000269 and No. 000270 for Kshs.767,338 and Kshs.900,000 respectively, were en-cashed at Tea Room in Nairobi on 27/2/2013 and various payment vouchers, some dated as far back as August, 2012 presented to support the cheques. However, the following additional anomalies were noted:-

- a) The payment vouchers were not authorized by the Clerk to the Council and were also not approved by the Treasurer.
- b) The payment vouchers were not signed by the Accountant and were not posted to the Vote Book.
- c) An amount of Kshs.232,829 used to pay salary arrears had no supporting documents.
- d) The Ministry of Local Government was paid Kshs.50,000 with a Receipt No.11200000642 of 29 June 2012 as a supporting document. It was not clear how the receipt of June, 2012 could be used to support amount withdrawn in February, 2013.
- e) An additional amount of Kshs.2,915,000 was withdrawn in Mandera but had no supporting documents to confirm the purpose of the withdrawal.

Under the circumstances, it was not possible to confirm that total amount of Kshs.7,497,338 was spent for the intended purposes and was therefore a proper charge on public funds.

Recommendations

All withdrawals made from a bank account should be properly supported by payment vouchers and other relevant documents which should be duly authorized. Public funds should be spent for the intended purpose and in accordance with the government financial regulations and procedures.

(e) Unauthorized Bank Over-draft

Audit examination of bank statements of LATF account held at Equity Bank revealed that the account was over-drawn by Kshs.2,058,897 and Kshs.937,345 on 16/2/2013 and 3/3/2013 respectively. However, there was no Council resolution and approval of the same by the then Minister for Local Government.

Recommendations

The Government should apply prudent financial management practices to ensure that no over commitment of funds beyond its capability. The laid down government financial regulations and procedures should also be followed.

(ii) Debtors' Balances

a) The summary of handing over report prepared by the former Council indicated that over Kshs.100 million was outstanding as land rent and penalties as at 28 February, 2013. A schedule of plot rent attached to the handing over report showed Kshs.37,037,904 as plot rent arrears and penalties. Although penalties were charged on plot rent defaulters, no evidence was availed to indicate this that was communicated to the affected persons.

b) The handing over report showed an amount of Kshs.3,298,400 for survey charges on Elwak plot applicants. Plot rent registers from the same region reflect rent arrears amounting to Kshs.21,985,617 which was not reflected in the handing over report.

c) The handing over report also showed that the Rest House owned by the Council was rented by an individual (name not indicated). The tenant vacated the premises on 25 February, 2013 and defaulted to pay rent amounting to Kshs.461,000. Since no lease agreement was made available for audit review, it was not possible to ascertain the correct amount of unpaid rent as at 28 February, 2013.

d) The summary of handing over report includes an amount of Kshs.101,400 indicated as outstanding house rent accumulated by staff living in the Council's nine (9) houses. However, a schedule attached to the report showed that the Council owned ten (10) houses with an outstanding rent of Kshs.166,600 resulting to unreconciled difference of Kshs.65,200.

e) The handing over report also indicated that Safaricom Company Ltd owed the Council Kshs.600,000, being rent for the company's boosters installed at various centres within the County. The amount was however not supported with any verifiable documentation and therefore could not be confirmed.

Recommendation

Proper systems for recording debtors should be put in place to ensure accuracy and completeness of the records. A debt collection policy should also be developed to enhance revenue collection.

(iii) Creditors' Balance

a) The handing over report reflected creditors' balance of Kshs.14,534,479. However, a re-calculation of the figures reflected in the schedule of creditors attached to the report revealed a balance of Kshs.15,034,479. The difference of Kshs.500,000 between the two sets of figures was not explained.

b) A schedule of staff salary arrears attached to the handing over report reflects a figure of Kshs.2,952,041 but which was not included in the list of creditors. Also, the period of salary arrears was not indicated.

c) The summary of the handing over report indicated that a tenant of the Council's Rest House vacated on 25 February, 2013 and left behind an outstanding water bill of Kshs.900,000 which was not reflected in the list of creditors.

d) The Council had budgeted for capital projects worth Kshs.50,300,000 for 2012/2013 and as at 28/2/2013, had paid contractors a total of Kshs.28,555,000, leaving an outstanding balance of Kshs.21,745,000 which was omitted in the creditors' balance as per the handing over report.

As a result of the above omissions, the accuracy of the Creditors' balance handed over to the County Government could not be confirmed.

Recommendations

- i) The above variations and omissions should be reconciled and explained.
- ii) Creditors' balances handed over to the County Government should be verified and validated to ascertain accuracy and authenticity.
- iii) Systems for proper recording of creditors should be developed to ensure accurate and reliable balances.

3.8 Fixed Assets

Motor Vehicles

Physical verification of the vehicles owned by the defunct County Council of Mandera confirmed that all vehicles had been handed over to the County Government on 18 April, 2013 except Motor Vehicle number KAV 336E which was in Elwak Town. Further, motor vehicle number KAW 336W was not included in the handing over report forwarded to the county government. The following vehicles valued at Kshs.3, 950,000 were handed over to the county government:

Vehicle No.	Make	Remarks
1. KAW 676Z	Toyota Hilux double cabin Pick-up	Good condition
2. KAH 086Y	Toyota Hilux double cabin Pick up	Serviceable (old)
3. KAV 336E	Toyota Hilux double cabin Pick up	Grounded
4. KAW 336W	Land Rover	Grounded
5. KQS 782S	Land Rover	Grounded

No log books were made available for the above vehicles except KAW 676Z, contrary to the requirements of government regulations. It was therefore not possible to confirm ownership of the vehicles.

Recommendation

The vehicle omitted in the handing over report should be included and ownership documents for all motor vehicles should be obtained from the relevant authority.

3.9 Revenue Collections

i) Revenue not accounted for

A scrutiny of revenue receipt books for the months of December, 2012 to February, 2013 revealed that an amount of Kshs.5,975,661 was collected by the Council. However, pay-in-slips presented for audit review indicated that only Kshs.1,618,200 was banked as detailed below:-

Date	Denominations	Amount (Kshs.)
12.12.12	2 x 6,200	12,400
18.12.12	4 x 6,200	210,800
19.12.12	93 x 6,200	576,600
19.12.12	12 x 6,200	74,400
20.12.12	71 x 6,200	440,200
21.12.12	28 x 6,200	173,600
16/15/14.11.12	3 x 6,200	18,600
31.12.12	16 x 6,200	99,200
5.1.13	2 x 6,200	<u>12,400</u>
Total		<u>1,618,200</u>

Recommendation

The County Government should ensure there are proper systems in place to enhance accountability of revenue collection and banking. All money collected should be banked intact and promptly as required by the Public Finance Management Act, 2012.

ii) Maintenance of Revenue Books

Audit examination of two (2) copies of Counter Receipt Books Register (CRB) revealed that the CRB did not reflect the dates most of the receipt books were issued, names and signatures of the recipients. Some of the receipt books were issued to civic leaders and most of the receipt books had not been surrendered as at the time of the audit exercise in September, 2013. An example is a livestock movement receipt book serial no.1301-1350 issued on 7 January, 2005 and remained un-surrendered as at the time of audit in September, 2013. It was further noted that the completed receipt books were not being entered on the Collection Control Sheet (CCS) which was not being maintained by the Council.

Failure to account for all revenue collection receipt books issued may lead to loss of revenue.

Recommendations

- i) The County should ensure that outstanding revenue collection receipt books are surrendered and that revenue collected is fully accounted for.
- ii) Proper systems for administering revenue collection receipt books should be put in place to enhance collection and accounting of revenue.

3.10 Staff Payroll Records

i) Basic Salary Increments

Audit examination of the payroll revealed that basic salaries of all Council employees were increased in the month of January, 2013 resulting to a total increase of Kshs.320,087. The amount was paid in the months of January and February, 2013 before the County Government took over the payroll in March, 2013. As a result, a total of Kshs.640,174 was paid for the two months but the increase did not match with the scales outlined in the terms and conditions of service of the former Local Authorities which came into operation on 1 September, 2012.

In the absence of an explanation for the variations on basic salaries, the total expenditure of Kshs.640,174 cannot be confirmed to be a proper charge on public funds.

ii) Unaccounted for Casual Wages

A payment for Kshs.900,000 was made to casual laborers vide cheque No.000303 on 27/2/2013. However, the period the work was done was not indicated, the voucher was not authorized by the Clerk to the Council and no muster rolls were maintained for confirmation that the casual labourers actually worked to justify the wages paid.

Recommendations

- Only authorized salary increments should be paid. Further, all expenditure should be confirmed before initiating payment process reflected in the budget.
- An audit of the County Government personnel should be conducted to ascertain the optimum staff requirements and to identify any skill gaps to be considered in future recruitments.
- Muster rolls should be maintained for recording details of casual workers including number of days worked.

3.11 Other Audit Findings

a) Irregular Payment of Subsistence Allowances

Examination of LATF and Petty cash payment vouchers and other supporting documents revealed that an expenditure of Kshs.3,920,340 was incurred on payment of various subsistence allowances on diverse dates. The following observations were made:-

- (i) Most of the payment vouchers were; not authorized by the Clerk to the County Council, not approved by the Treasurer, not posted to the cash book and not signed by Head of Accounts Department.
- (ii) Some of the payments in respect of travelling expenses were not supported by travel documents such as bus tickets or work tickets and therefore evidence of journeys made was missing.
- (iii) In most cases, the payees did not sign the payment vouchers to acknowledge receipt of the money paid.
- (iv) Allowances were paid to officers attending seminars and workshops on various dates. However, the payments were not supported with invitation letters, workshop programs, dates and venues where the workshops were being held.
- (v) Some of the payments made relate to officers who were on official duties during the previous financial year(s). An example is a payment of Kshs.87,500 made to an officer while on revenue operation at Shimbir, Fatuma, Fincharo, Wargadud and Elwak between 26/6/2004 and 21/8/2004. No evidence was made available for confirmation that the officer was not paid during that time. It was also not clear why the payment remained outstanding for almost ten years.

Recommendations

All payments must be properly supported with relevant documentation. Payments which are not fully supported should not be authorized.

b) Irregular Procurement/Unsupported LATF Projects

The County Council implemented capital projects amounting to Kshs.31,025,000 during 2012/2013. The projects related to Education, Water and Health sectors and were implemented in various locations within Mandera County. Subject files for some twelve (12) projects costing Kshs.10,925,000 were not made available for audit review. They included construction of dispensaries, supply of 150 double decker beds, construction of administration block, construction of class rooms, amongst others. It was therefore not possible to ascertain that procurement law and regulations were followed, and goods and services

competitively sourced. The balance of Kshs.20,100,000 related to projects whose files were presented for audit review which revealed the following anomalies:-

- i) Most of the files did not have tender documents such as Bills of Quantities (BQs), tender committee minutes, contract agreements, confidential business questionnaires etc.
- ii) Original BQs were not availed for audit, while copies of BQs found in respect to some winning bidders were not signed and had no rubber stamps of the companies.
- iii) Some payments made were not supported with certificates of completion from the respective technical departments of the line ministries.
- iv) Full payments had been made to contractors and no retention money was deducted although defect liability periods had not lapsed. This contravened Chapter 14.8 of the Government Financial Regulations and Procedures.

It was therefore not possible to confirm whether the projects were done according to the BQs and satisfactorily completed in line with the contract agreements signed between the contractors and the Council.

Recommendation

The County Government should adhere to the procedures stipulated in the Public Procurement and Disposal Act, 2005 and related 2006 regulations when procuring goods and services. All projects completed should be confirmed to be in accordance with the signed agreements.

c) Unaccounted for Fuel and Building Materials

Examination of payment vouchers revealed that cheque No.000297/299 of 27/2/2013 was used to pay 20,600 litres of diesel worth Kshs.2,884,000 and building materials worth Kshs.478,700 supplied to the Council. However, the fuel was not taken on charge and there were no detail orders, delivery notes and vehicle's work tickets to confirm the usage. The building materials bought were also not taken on charge on the stores ledgers and no issue notes were produced for audit confirmation on issues made and subsequent usage.

Recommendation

The procedures stipulated in the Public Procurement and Disposal Act, 2005 and related 2006 regulations should be followed when procuring goods and services by the County.

d) Expenditure on Legal Services

A payment for Kshs.1,519,985 was made to a firm of Advocates based in Nairobi vide Cheque No.000286 of 27/2/2013 for legal services rendered on behalf of the Council. The invoices seen were dated January and February, 2013. The Council however, did not maintain subject files containing correspondences with the legal practitioner and consequently, it could not be established how the legal firm was identified for the services and subsequent award of the contract. The specific legal services provided by the firm were also not indicated.

Recommendations

The County Government should adhere to the procedures stipulated in the Public Procurement and Disposal Act, 2005 and related 2006 regulations, when procuring goods and services. Correspondences relating to legal matters should be properly kept in the relevant subject files for ease of review.

e) Repair of Motor Vehicles

Examination of payment vouchers revealed that the Council spent Kshs.1,120,420 on repair of motor vehicles. However, the repairs were not recorded on the log books, the vehicles were not inspected (pre & post inspections) to ascertain the required and estimated cost of the repairs and replaced vehicles parts were not physically seen. In view of the above, it was not possible to ascertain whether the repairs were done or not to guarantee the payment.

Recommendation

Vehicles should be inspected prior to carrying out repairs to ascertain the mechanical problems. All repairs should be recorded in the respective motor vehicles log books to ensure proper accountability.

f) Unaccounted for Goods and Services

Examination of payment vouchers revealed that the Council spent Kshs.746,280 on various administration transactions including purchase of seedlings, stationery and hire of motor vehicles for monitoring and evaluation exercises during 2012/2013. It was noted that the items bought were not taken on charge in the stores register. The motor vehicles hired at a total cost of Kshs. 400,000 were single sourced and there was no tangible evidence of how they were used for the functions of the Council.

Recommendation

The County Government should adhere to the procedures stipulated in the Public Procurement and Disposal Act, 2005 and related 2006 regulations when procuring goods and services.

g) Budget for 2012/2013

The County Council of Mandera did not present for audit review, a copy of the budget for the year 2012/2013 and no explanation was given for the omission. As a result, it could not be ascertained whether or not expenditure incurred by the former Council had been budgeted for.

h) Outstanding Statutory Deductions

Audit scrutiny of file number CCM/53/VOL.II revealed that the Council made a payment of Kshs.40,080 to National Hospital Insurance Fund (NHIF) on 6 February, 2013, being contributions for the months of October to January, 2013 as evidenced by receipt No.2079185 of the same date. The above payment was as a result of an order notice to pay issued by NHIF vide letter referenced 47247772 of 23/1/2013. The balance of Kshs.30,000 attracted automatic penalty of Kshs.150,000, which is five times of the outstanding amount. A further amount of Kshs.30,600 had not been paid to NHIF in respect of contributions for the months of February to April, 2013. The Council incurred avoidable expenditure in form of penalties due to late payment of the statutory deductions.

Recommendation

All statutory deductions should be remitted within the set timelines to avoid payment of huge penalties as these are funds already recovered from staff salaries.

Defunct Town Council of Mandera

3.12 Improper Handing Over to the County Government

There was no proper handing over of the assets and liabilities of the former Town Council of Mandera to the Transition Authority as required by the Ministry of Local Government Circular No. MLG/1333/TY/52 of 18 February, 2013. As a result, the County Government had no records of assets and liabilities owned by the former Town Council of Mandera.

Recommendation

The Transition Authority should arrange for proper handing over of assets, liabilities and staff of the former Town Council to enable the County Government have a basis of opening balances to be reflected in its books of account. The County Government should also ensure that former Chief Officers of the defunct Local Authority prepare a comprehensive handing over report which should also include all loans held by the former Council.

3.13 Current Assets and Liabilities

(i) Cash and Bank Balances

(a) Closure of Bank Accounts

Audit examination of the bank statements revealed that the Town Council's management continued to operate six (6) bank accounts previously held up to September, 2013. The balances held in these accounts as at September 2013 were Kshs.346,419. All bank accounts should be closed and unspent balances transferred to county revenue account.

(b) Maintenance of Cash Books

The Council did not maintain a main cash book, contrary to requirements of Government Financial Regulations and Procedures. However, the Council prepared a Receipts, LATF and Petty Cashbooks which were not balanced on a daily basis. Further, the cashbooks were not checked by senior officers for confirmation of accuracy and completeness. Entries for the bank column of the receipts cashbook were not recorded, therefore ignoring the double entry accounting concept.

Recommendations

- i)** The main cash book and other subsidiary cash books should be maintained in accordance with the Government Financial Regulations and Procedures. The accuracy and completeness of the records should be confirmed by a senior official.
- ii)** Monthly bank reconciliation statement for each bank account held should be prepared to ensure completeness of transactions and correction of errors.

(c) Bank Overdraft/Inter-Bank Borrowing

Audit of bank statements for Salary and LATF accounts revealed the following unsatisfactory matters:

- i)** A Salary Account maintained at Equity Bank reflected an overdraft of Kshs.483,989 as a balance brought forward from the month of December 2012, but the bank statement was not produced for audit review. On 3 January 2013, an amount of Kshs.442,500 was transferred from LATF A/C (KCB) to the Salary A/C vide payment voucher no.091 and cheque No 0001392 both dated 3 January 2013, as a way of regularizing the overdraft. Consequently, the account ended up with a credit balance of Kshs.380.35

- ii) On 5 January 2013, an amount of Kshs.961,305 was withdrawn from Salary A/C vide cheque No.00279 resulting to a debit balance of Kshs.954,994, but with no supporting payment voucher.
- iii) On 6 April 2013, an amount of Kshs.1,521,904 was withdrawn vide cheque No 000281 leading to another debit balance (DR) of Kshs.322,733 but no payment voucher supported the same.

From the foregoing, the resulting bank overdraft and account inter borrowing were not sanctioned by the Council as no minute was availed to support the same. It was further noted that no ministerial approval was sought before the action was taken.

(ii) Creditors

Examination of payment vouchers revealed that the Council made payment totalling to Kshs.8,583,959 to various staff, casuals, local suppliers, Statutory bodies and law firms. The payments however had no supporting documentation and as a result, propriety of the expenditure could not be confirmed.

Recommendation

Payments should only be made for goods supplied or services rendered to the County and be supported with relevant documentation.

3.14 Fixed Assets

Motor Vehicles

The defunct Town Council of Mandera owned the following motor vehicles as per the records seen:

<u>Registration No.</u>	<u>Make</u>	<u>Remarks</u>
KBL024L	Motor cycle (Yamaha)	Handed Over to County Government
KAW 850Z	Nissan type	"
KAV816E	Land rover	"
KAT 510X	Tractor	"
KAX020	Hilux Alcab,	"
KAB 270Q	Land rover fire engine	Not handed over to County Government.

However, the Council did not maintain a summary of the vehicles' work tickets and no log books were made available contrary to Government Regulations and Procedures. It was therefore not possible to confirm the presence of proper management and ownership of the vehicles.

3.15 Procurement of Goods, Works and Services

i) Irregular Procurement/Unsupported payments of LATF Projects

The Council implemented capital projects amounting to Kshs.14,492,738 during 2012/2013. However, the subject files for the projects were not made available for audit review. Payment vouchers verified were not supported with Bills of Quantities (BQs) and other tendering documents. It was therefore not possible to ascertain that procurement regulations were observed and goods and services competitively sourced. LATF payment cash book indicated that an amount of Kshs.8,375,718 was irregularly spent from LATF funds by the County Government. The expenditure was incurred between 02/04/2013 and 21/05/2013 and was used to pay subsistence allowances, procurement of goods and services and payment of casual wages. Further, the following three (3) projects had not been implemented:

Project Name	Amount (Kshs)
Purchase of one (1) Tipper lorry for refuse collection	7,000,000
Purchase of one (1) exhauster vehicle for solid waste	6,000,000
Purchase of 3 piston generator for Shafshafey Ward	<u>1,000,000</u>
Total	<u>14,000.000</u>

ii) Unaccounted for Goods and Services

Examination of payment vouchers revealed that the Council procured goods and services worth Kshs.454,000. The expenditure was in respect of demolition services, purchase of cement and cleaning services. However, the following anomalies were noted:

- The Council paid Kshs.204,000 on 8 February, 2013 for demolition of partitioning wall around the toilets and other miscellaneous services in Mandera town but the services were not competitively sourced, contrary to the procurement regulations.
- A total of Kshs.120,000 was paid on 28 February, 2013 for 100 bags of cement purchased but the items were not taken on charge in the stores registers and there were no issue notes to confirm the point of use.
- A total of Kshs.130,000 was indicated paid to sundry persons for cleaning services but the list of the people paid was not attached on the payment voucher. However, the cheque counterfoil showed that Kshs.70,000 was paid to a lawyer and the balance of Kshs.60,000 for road cleaning services. Propriety of the total expenditure could therefore not be confirmed.

Recommendation

The County Government should adhere to the procedures stipulated in the Public Procurement and Disposal Act, 2005 and related 2006 regulations, when procuring goods and services. Goods procured should be fully accounted for.

3.16 Collection of Revenue

Unaccounted for Revenue

Examination of revenue receipt books for the months of December, 2012 to February, 2013 revealed that an amount of Kshs.4,734,901 was collected by the Council. However, pay-in-slips presented for audit indicated that only Kshs.307,800 was banked resulting to an under banking of Kshs.4,427,101.

Recommendation

The County Government should put proper systems in place to enhance accountability of revenue collection and banking. All money collected should be banked intact and promptly as required by the Public Finance Management Act, 2012.

3.17 Other Audit Findings

a) Unsupported Payment of Subsistence Allowances

Examination of payment vouchers and other supporting documents revealed that an expenditure of Kshs.4,026,949 was incurred by the former Council on payment of various subsistence allowances on diverse dates. The following observations were made:-

- (i) The payments related to payment of subsistence allowances to officers involved in survey works. The dates when the survey was done and the officers involved were not indicated.
- (ii) Most of the vouchers were not supported by payment schedules signed by the payees and work tickets of the vehicles involved.
- (iii) No evidence was availed to show that the survey was done since the payments were not supported by a survey report.
- (iv) The payment vouchers did not have proper narrations and were not posted to the vote book since it was not maintained.

Recommendation

All payments must be supported with all relevant documents. Payments which are not fully supported should not be authorized.

b) Unsupported Payment of Salaries and Councilor's Allowances

Examination of payments vouchers revealed that the former Council paid staff salaries and councilor's allowances amounting to Kshs.569,567. However, the payment vouchers were not supported by the payrolls of both staff and civil leaders. In the absence of the payrolls, it was not possible to establish whether the expenditure was incurred for the intended purpose.

c) Non Functional Internal Audit Department and Audit Committee

The former Council had a poorly established internal audit department with only one staff member. There were no internal audit reports made available to show the role the department plays in assisting the management in the effective discharge of their responsibilities. In addition, an Audit Committee was not in place and therefore, there were no checks and balances on the Council activities.

3.18 Conclusion

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



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

20 February 2014