REPUBLIC OF KENYA

KENYA NATIONAL AUDIT OFFICE

REPORT

OF

THE AUDITOR–GENERAL

ON THE

FINANCIAL OPERATIONS

OF

TANA RIVER COUNTY

Table of Contents

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

1. EXECUTIVE SUMMARY

1.1 Introduction

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 The County Government Act, 2012 Section 134 (1) repealed the Local Government Act, Cap 265, and thus effectively dissolving all the 175 Local Authorities and creating 47 County Governments.

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.

1.2 Audit Objectives

The audit covered the County Executive and County Assembly and the former County Council of Tana River transactions for the period 1st January to 30th 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
- ✓ ICT and G-Pay System

1.2.2 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.

1.3 Key Audit Findings

1.3.1 County Executive and County Assembly

1.3.1.1 Failure to take over the Defunct County Council of Tana River

The County Government of Tana River had not officially taken over the assets and liabilities of the former County Council of Tana River as at the time of audit conclusion in August, 2013, contrary to instructions issued by the Ministry of Local Government vide Circular No. MLG/1333/TY/52 of 18 February, 2013. Arrangements should be made by Transition Authority to have assets and liabilities of the former County Council officially handed over to the County Government.

1.3.1.2 Current assets and liabilities

i) Cash and Bank Balances

The County Government of Tana River did not regularly update the cashbook. A comparison of the bank certificates and the cashbooks as at 30 June 2013 revealed a difference of Kshs.127,718,916. Bank reconciliation statements were also not prepared for these bank accounts and therefore balances could not be ascertained.
Bank reconciliation statements should be prepared on monthly basis to enable early detection of errors or fraudulent transactions. They should also be checked by a senior official to ensure accuracy. The cash book should be updated and the difference of Kshs.127,718,916 promptly investigated.

ii) Creditors

The County Government maintained its creditors records in an excel spreadsheet. The creditors records could, however, not be vouched for accuracy and completeness as a creditors ledger, and creditors control accounts had not been opened by the County. Consequently, the accuracy and completeness of creditors inherited from the defunct Council cannot be ascertained. Similarly, the basis for settling of these creditors is not clear.

Appropriate creditor’s records should be maintained to include particulars of each creditor. Also, no creditor should be settled before validation of the balances.

iii) Debtors - Imprest

The County Government did not maintain up to date records on issuance of imprests and their eventual surrender. The imprest ledger was not properly updated to show the outstanding imprests as at 30 June 2013 and it was therefore difficult to extract information on outstanding imprests issued to employees. It was further observed that imprests amounting to Kshs.1,994,470 were not adequately supported with the purpose for which the imprest was being requested for. Cases of multiple issuance of imprest to staff before surrender of previous imprests were observed.

The County Government should ensure that appropriate imprest records are maintained to include particulars of each imprest issued with the purpose being clearly defined. Also, no imprests should be issued to any county official without having surrendered the previous one.

1.3.1.3 Non-Current Assets

The County did not maintain a fixed assets register for recording details of its non-current assets. Details of non-current assets were maintained in schedules which cannot be considered as secure and permanent records. In addition, log books for three motor cycles were not produced for audit verification.

As at the time of audit, the County Government had not made postings to the fixed assets register. Equally, the assets inherited from the defunct Council and additions by the County Government as at 30 June 2013 had not been recorded in a permanent record.

The County Government should take stock of all its assets and ensure a master fixed assets register is maintained. The register should clearly indicate the values and location of the assets and ownership documents for the assets.

1.3.1.4 Revenue Collection, Banking and Maintenance of Records

The revenue collected by the County Government between 28 February 2013 and 30 June 2013 amounted to Kshs.7,569,222. At the same time, the County spent amounts totalling Kshs.1,069,054.90 directly from the collected revenue before banking. Although subsequent cheque replacements to cover for the expenditure were banked during the month of March 2013, this is an indication that the County Government is not banking revenue collected promptly and intact as required by government financial regulations and procedures.

The County Government should ensure that revenues collected are banked promptly and intact. Further, regular reconciliations between revenue collected and amounts banked should be carried out and reviewed by a senior responsible officer.

1.3.1.5 Procurement and stores

i) Lack of an annual procurement plan

The County did not prepare an annual procurement plan as required under Section 26 (3) (a) of the Public Procurement and Disposal Act, 2005.

The County Government should prepare and adhere to the procurement plan as required by the Public Procurement and Disposal Act, 2005.

ii) Non-prequalification of suppliers

Pre-qualification of suppliers was not done during the year and the County continued using previous years' pre-qualified suppliers. Although a tender committee was in place, there was no evidence of tender adjudication done with the result that works and services totaling Kshs.16,994,584 were procured and awarded without following laid down public procurement procedures.

The County Government should in future pre-qualify its suppliers and the tender adjudication be done by the tender committee as required. All future procurement of goods and services should be done in accordance with the Public Procurement and Disposal Act, 2005 and related 2006 regulations in order for the County to ensure competitiveness and realize value for money.

iii) Lack of updated stores records

The County Government did not maintain updated stores records to account for goods procured or services rendered. Supply of fuel totaling Kshs.1,804,000 for the period under audit could not be verified, as the delivery notes, indicating details of motor vehicles that may have drawn the fuel were not availed for audit review. The stores ledger and the inventory ledger availed were also not up to date. The former council officials should explain and take charge of the items in the stores records. The County Government should ensure that future store purchases and deliveries are recorded in stores records as stipulated in Government financial regulations and procedures and is supported with the relevant documentation.

1.3.1.6 Unsupported Expenditure – Kshs.3,723,747

During the period under review, the County Government incurred an expenditure of Kshs.2,871,613 which was not supported by work tickets, bus tickets and air tickets for journeys made. It was indicated that the expenditure was incurred on workshops. However, the details of the workshops and relevant invitation letters were not availed for audit. Further, the County Government had incurred expenditure amounting to Kshs.852,134 on airtime and other items that had initially not been budgeted for. Details on beneficiaries of the airtime and other expenditures amounting to the Kshs.852,134 were not availed for audit review. Consequently, the propriety of the total Kshs.3,723,747 expenditure could not be ascertained.

In addition, it was observed that the County Government allowed for commutation of leave days without proper justification. It was also observed that County Representatives were paid for assignments not relevant to their duties. The management should offer proper explanation on how the expenditure was incurred without the necessary supporting documents.

The irregularly paid amounts totaling Kshs.3,723,747 should be recovered from the accounting officer who knowingly authorized the payment. No expenditure should in future be incurred without the necessary supporting documentation.

1.3.1.7 Personnel and Payroll Records

Audit of payroll revealed the following inconsistencies in payroll management:

- Audit of payroll revealed inconsistences in payment of salaries to five newly recruited staff. Four of the employees drew higher salaries than their entitlement contrary to the Salaries and Remuneration Commission guidelines. The other staffs were however drawing lower salaries as per remuneration guidelines with the result that the total overpayment for the four officers up to June 2013 was Kshs.232, 922.
- P.AY.E tax deducted from some employees' salaries was lower than what was dully payable by Kshs.53,157 from their gross earnings. Consequently, a total of Kshs.53,157 was not deducted and remitted to Kenya Revenue Authority as required.
- As at the close of the financial year, the County Government of Tana River had not established the County Public Service Board as required under Section 56 (1) of the County Governments Act, 2012.
- The County recruited twelve employees without following the laid down recruitment procedures. Equally, employees inherited from the defunct Council were assimilated to the County Government without clearly defined job description.

Remuneration should adhere to the guidelines of the Salaries and Remuneration Commission. The County Government should carry out job evaluation and assessments to facilitate deployment of key staff to relevant departments. This will also assist in recruitment of new staff with skills similar to the existing staff. The County Government should also carry out audit of the staff to ascertain the optimum number and skill gaps which needs to be filled in future.

1.3.1.8 Governors Trip to Israel

The Governor and his team spent a total of Kshs.2,157,240 on a training course in Israel. There was no budgetary provision for this item nor was there a policy on training. In addition, there was no needs assessment report on training, to confirm that such training would be beneficial to the County and whether the trip was official.
The County executive should be made to justify the benefits of the expenditure incurred, and in future institute a training policy that best suits the interest of the County.

1.3.2 Tana River County Council

1.3.2.4 Local Authority Transfer Fund (LATF)

During the eight months period ending 28 February 2013, the Council received Kshs.90,637,861 from the Central Government being part of the LATF allocation for the year. In its approved budget, the Council had set aside Kshs.46,024,620 for implementation of Council's capital projects and community based projects. Analysis of the projects implementation status revealed that projects totalling Kshs.26,234,620 were not implemented as had been budgeted and thus, added no value to the lives of Tana River residents. No reason has been given for failure to implement the projects. The management of the defunct Council should provide justification on the non-implementation of projects which had been budgeted for.

1.3.2.5 Current assets and liabilities

i) Debtors

The Council had an outstanding debtors balance amounting to Kshs.74,562,554 as at 28 February 2013. Out of this balance, the contribution in lieu of rates from Central Government owed to the council was Kshs.60,804,704. Other debtors over Kshs.300,000 totalled Kshs.9,152,863 and those below Kshs.300,000 amounted to Kshs.4,604,987. There were no permanent records kept on debtors other than excel spreadsheets. Debtor's circularization was not done and therefore the figures shown could not be confirmed as the correct balances.

Appropriate records should be maintained to include particulars of each debtor. Also, debtor's validation should be done before official handing over is made to the County Government. A debtor's policy should be developed and be put in place by the County Government.

ii) Cash and Bank Balances

It was observed that the Council's bank accounts were not closed on 28 February 2013 as required and instead the bank accounts were closed on 30 May 2013. The Council transferred an amount of Kshs.25,096,417.20 to the County Government bank accounts, Kshs.22,576,296 to Local Authority Transfer Fund account and Kshs.2,520,121.20 to the County Government Revenue account.

As at the time of closure of the bank accounts, the reconciled cash book balances indicated an overdrawn balance of Kshs.775,343.00 in the General Rate Fund account and Kshs.21,037,518.00 in the Local Authority Transfer Fund account. In both instances, the reconciliations showed un-presented cheques amounting to Kshs.1,259,527.15 for the Local Authority Transfer Fund account.

The Transition Authority should ensure that all bank accounts are closed and balances transferred to the County Government exchequer account. Monthly bank reconciliations should be done for all accounts to ascertain the correct balances as at 28 February 2013.

1.3.2.6 Incorrect Computation of Pay as You Earn

Following the approval of the Collective Bargaining Agreement 2012 (CBA) by the Deputy Prime Minister and Minister for Local Government, the Council implemented the new salaries and allowances in the payroll with effect from 1 March 2013. While computing the six months arrears arising from the new CBA, Pay as You Earn (PAYE) deducted from the salary arrears was not correctly computed leading to an understatement of the amount deducted and remitted to Kenya Revenue Authority by Kshs.794,965.

The PAYE not deducted should be recovered from concerned individuals and remitted to Kenya Revenue Authority to avoid huge penalties for late remittances.

1.3.2.7 Revenue Banking

The Council collected revenue amounting to Kshs.16,229,673 between 1 July 2012 and 28 February 2013. During the same period, the Council banked Kshs.16,857,875. The difference of Kshs.628,202 was attributed to “overbanking”, which is an indication that cash receipts are not properly being accounted for. It was further explained that the inconsistency in banking was attributed to direct expenditure from revenue, which was later ‘regularized’ through issuance of cheques by the Council. The County Government should, therefore, ensure that revenues collected are banked promptly and intact. Further, regular reconciliations between revenue collected and amounts banked should be carried out and reviewed by a senior responsible officer.

1.3.3 Information Systems assessment

i) Hardware

The County had received twenty one (21) computers, twenty one (21) UPSs and five (5) special orange CDMA modems from the National Treasury (IFMIS Department) which will be solely used for IFMIS.

ii) Integrated Financial Management Information System (IFMIS) and G-Pay

IFMIS has been installed in the County with the plan to budget module operational. Due to poor connectivity, the Accounts payable module is not dependably used to process payments. Also, other computers are yet to be IFMIS configured by Treasury for use for payment process.

The County had received one computer from The National Treasury which is dedicated for G-Pay. Only the Principal Officer Finance has been trained to use the system. However, payments are still being made through manual cheques. The G-pay system should be operationalized and the County stops making payments using the manual system.

iii) Local Authority Integrated Financial Operations Management System (LAIFOMS)

LAIFOMS had been installed in the former County Council of Tana River. The system is not being used because no one has been trained on how to use the system for Revenue collection. Currently, the revenue collection process is done manually.

iv) Integrated Payroll and Personnel Database (IPPD)

The County has fully installed the IPPD system and began processing the county payroll from July 2013.

v) IT Organization Structure

The Information Technology section has two staff and thus very little segregation of duties. There are no specific defined roles and responsibilities on how to oversee the IT operations.

From the approved 2013/14 County budget, the ICT department was allocated KShs. 40 Million with no clear breakdown of how it will be utilized.

At the time of audit, the County was in the process of laying fixed cable connected to Orange to ensure reliable connectivity.

1.4 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 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. 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.

Edward R. O. Ouko, CBS
<u>AUDITOR-GENERAL</u>

Nairobi

12 February 2014

2 MAIN REPORT

2.3 Background

The audit was to verify County Government preparedness to receive and utilize devolved funds before, during and after transition period in addition to the transfer of assets, liabilities and staff from the defunct local authority.

2.4 Terms of Reference

The Office of the Auditor-General is an independent office mandated by Article 229 of the Constitution of Kenya to audit the accounts of the National and County Government. In this regard, the Office planned an audit for the Tana River County with the following terms of reference:

- Verification of cash and bank transactions held at various different accounts in the defunct Local Authorities during the period of transition between 5 March 2013 and 30 June 2013.
- Examination of transactions of defunct Local Authorities between 01 January 2013 to 30 June 2013.
- Examination of transactions of the County Government and County Assembly between 5 March and 30 June 2013.
- Check the closure of bank accounts as directed by Transitional Authority.
- Check proper procurement procedures as per Public Procurement and Disposal Act, 2005 and related 2006 Regulations.
- Check Current debtors and suppliers balances.
- Implementation of the IFMIS and G-Pay as opposed to manual system.
- Check the status and usage of the Motor vehicles and equipment.
- Confirm whether County bank accounts were opened on 04 March 2013.
- IPPD Payrolls – Check for Ghost workers in payroll.
- Irregular borrowings, overdrafts and payment of non-existing loans.

The audit was conducted in the month of August and September, 2013.

2.5 Methodology

The approach used in carrying out this audit included the following:

- Interviews with key officers at the County headquarters and defunct Local Authority;
- Review of applicable legislation and regulations;
- Assessment of internal control;
- Examination of payment vouchers, cash book, vote book, bank statements, bank slips, tender and contract documents, stores records and other related records;
- Review minutes for the meetings where there were resolutions affecting management of cash;
- Physical inspection/verifications; and
- Verify the bank reconciliation statements as at 30 June 2013.

3 DETAILED FINDINGS

3.1 County Executive and County Assembly

3.1.1 Handing and Taking Over process

On establishment of the County Government of Tana River with effect from 4 March 2013, the County Government was supposed to take over all the assets, liabilities and employees of the defunct County Council. However, as at the time of audit conclusion (August 2013), the County Government of Tana River had taken over the assets, liabilities and employees of the defunct County Council and started utilizing the assets and settling debts of the Council without a formal handing and taking over process.

Recommendation

Arrangements should be made by Transition Authority to have assets and liabilities of the former County Council officially handed over to the County Government.

3.1.2 Non-Current Assets

The Council did not maintain a fixed assets register for recording the details of its non-current assets. Details of non-current assets were maintained in schedules which cannot be considered as secure and permanent records. In addition, log books for three motor cycles were not produced for audit verification.

As at the time of audit, the County Government had not made postings to the fixed assets register. Equally, the assets inherited from the defunct Council and additions by the County Government as at 30 June 2013 had not been recorded in a permanent record.

Recommendation

The County Government should take stock of all its assets and ensure a master fixed assets register is maintained. The register should clearly indicate the values and location of the assets and ownership documents for the assets.

3.1.3 Creditors (Trade and Other Payables)

The County Government did not maintain a creditor's ledger. Outstanding creditors records were maintained in an excel spreadsheet which cannot be considered as a permanent record.

Similarly, the County Government had not opened the relevant books of accounts for trade and other payables being creditor's ledger and creditors control accounts and the basis on which creditors inherited from the defunct Council were being settled was therefore not clear.

Recommendation

Appropriate creditor's records should be maintained to include particulars of each creditor. Also, no creditor should be settled before validation of the balances.

3.1.4 Procurement

The County did not prepare an annual procurement plan as required under Section 26 (3) (a) of the Public Procurement and Disposal Act, 2005. Pre-qualification of suppliers was not done during the year and the County Government continued using previous years' pre-qualified suppliers. Although a tender committee was in place, there was no evidence of tender adjudication done by it with the result that works and services totalling Kshs.16,994,584 were procured and awarded without following laid down public procurement procedures.

Two firms were paid Kshs.6,753,515 for supply of furniture without following the laid down procedures. The firm's details such as registration and current trade license numbers could not be ascertained as the confidential business questionnaire was incomplete. It could, therefore, not be confirmed whether the firms were registered as required.

Further, a firm was paid a total of Kshs.703,100 for rehabilitation works at the County Office. However, the specifications availed did not bear any endorsement by a technical officer. There was no evidence of supervision and certification of works by a technical expert before payment was made. Consequently, it could not be confirmed that the work paid for was as per expected standard.

Recommendation

The County Government should prepare and adhere to the procurement plan as required by the Public Procurement and Disposal Act, 2005. The County Government should pre-qualify its suppliers and the tender adjudication be done by the tender committee as required. Procurement of goods and services should be done in accordance with Public Procurement and Disposal Act, 2005 and related 2006 regulations.

3.1.5 Lack of updated stores records

The County Government did not maintain updated stores records to account for goods procured or services rendered. Supply of fuel totaling Kshs.1,804,000 could not be verified, as the delivery notes, indicating details of motor vehicles that may have drawn the fuel were not availed. The stores ledger and the inventory ledger availed were not up to date.

Recommendation

The management should fully account for the fuel with supporting documentation. Store purchases and deliveries should be recorded in stores records.

3.1.6 Unsupported Expenditure - Kshs. 3,723,747

Expenditure totaling Kshs.2,871,613 incurred by the County Government was not supported by work tickets, bus tickets and air tickets for journeys made. It was indicated that the expenditure was incurred on workshops. However, the details of the workshops and relevant invitation letters were not availed for audit review. Reasons or purpose for the journeys made could, therefore, not be confirmed.

Further, the County Government had incurred expenditure amounting to Kshs.852,134 on airtime and other items. This expenditure was incurred as part of imprest issued. However, the expenditure was not part of imprest request and was used to balance imprest surrender. Commutation of leave days without proper justification observed and County representatives were paid for assignments not relevant to their duties.

Recommendation

The management should offer proper explanation on how the expenditure was incurred without the necessary supporting documents. No expenditure should be incurred without supporting documentation. The irregularly paid amounts totalling

Kshs.3,723,747 should be recovered from the accounting officer who knowingly authorized the payment.

3.1.7 Weaknesses in Internal Controls

Examination of payment vouchers for January 2013 to April 2013 paid by the County Council revealed the following weaknesses:

- Payment vouchers totalling Kshs.561,063 and Kshs.7,950,799 respectively were paid without the approval of the County Treasurer and County Clerk while vouchers totaling Kshs. 3,489,635 were paid without relevant supporting documents.
- Payments vouchers totaling Kshs.921,725 were not properly examined as required.

Recommendation

The management of the defunct Council should offer proper explanation on how the expenditure was incurred without the necessary examination and approval.

3.1.8 Cash and Bank Balances

The County Government bank confirmation certificates of balance as at 30 June 2013 showed a combined total balance of Kshs. 223,964,709.19 whereas the cashbook showed total amount of Kshs.96,245,792 leading to unexplained difference of Kshs.127,718,916.00.

Further, there were no bank reconciliation statements prepared and made available for audit scrutiny. Therefore, the cash and bank balances as at 30 June 2013 could not be ascertained.

Recommendation

The cash book should be updated and the difference of Kshs.127,718,916.00 be reconciled. Bank reconciliation statements should be prepared on a monthly basis and checked by a senior official to ensure accuracy.

3.1.9 Revenue Collection, Banking and Maintenance of Records

The revenue collected between 28 February 2013 and 30 June 2013 amounted to Kshs. 7,569,222. It was observed that while the County Government was supposed to have taken over the control of revenue collection within these dates, direct expenditures from revenue amounting to Kshs. 1,069,054.90 were made and subsequent Council cheque replacements to cover for this spent revenue banked during the month of March 2013. The details of the cheques are as follows:

Date	Cheque Number	Amount Kshs
14.3.2013	7164	202,829.00
15.3.2013	7172	327,683.00
22.3.2013	7179	247,134.20
24.3.2013	7198	291,408.90
Total		**1,069,054.90**

Recommendation

Revenue collected should be banked intact and promptly. Regular reconciliations between revenue collected and amounts banked should be carried out by a senior responsible officer.

3.1.10 Debtors - Imprest

The County Government did not maintain up to date records for issuance of imprests and their eventual surrender. The imprest ledger was not properly updated to show the outstanding imprests as at 30 June 2013 and it was therefore difficult to extract information on outstanding imprests issued to employees. It was observed that imprests amounting to Kshs.1,994,470 were not adequately supported with the purpose for which the imprest was being requested for. Cases of multiple issuance of imprest to staff before surrender of previous imprests were observed.

Recommendation

Appropriate imprest records should be maintained to include particulars of each imprest issued with the purpose being clearly indicated. Also, no imprests should be issued to any County official without having surrendered the previous one.

3.1.11 Incorrect Payment of Salaries

Audit of payroll revealed inconsistencies in payment of salaries to five newly recruited staff. Four of the employees drew higher salaries than their entitlement contrary to the Salaries and Remuneration Commission guidelines. The other staffs were, however, drawing lower salary as per remuneration guidelines with the result that the total overpayment for the four officers up to June 2013 was Kshs. 232,922.

Recommendation

Remuneration should adhere to the guidelines of the Salaries and Remuneration Commission.

3.1.12 Under-deduction of Pay As You Earn

Audit of the County payroll revealed that tax deducted from some employee salaries was lower than that deductible from their gross earnings. Consequently, a total of Kshs.53,157 was not deducted and remitted to Kenya Revenue Authority as required.

Recommendation

Correct deductions should be made and remittances made to the relevant Government agencies as required.

3.1.13 Personnel Matters and Employee Costs-Recruitment of New Staff

As at the close of the financial year, the County Government of Tana River had not established the County Public Service Board as required under Section 56 (1) of the County Governments Act, 2012 to oversee County Public Service matters. Further, the County recruited twelve employees without following the laid down recruitment procedures. Equally, employees inherited from the defunct Council were assimilated to the County Government without clearly defined job description.

Recommendation

Job evaluation and assessments should be done to facilitate deployment of key staff to relevant departments. This will also assist in recruitment of new staff with skills similar to the existing staff. The County Government should also carry out audit of the staff to ascertain the optimum number and skill gaps which needs to be filled in future.

3.1.14 Expenditure on County Funds

Examination of payment vouchers for the period March 2013 to June 2013 revealed the following observations in the use of county funds:

- A firm was paid a total of Kshs.1,106,820 on provision of air tickets to the County. It was, however, observed that there was no policy on the use of air transport. Further, a technical team from the Ministry of Public Works, Nairobi spent a total of Kshs.203,000 during a visit to the County. It was not clear how the officers, on official duties, were not duly facilitated from their duty stations as required.

- In addition, various officers were paid accommodation allowances amounting to Kshs.2,054,500 upon posting to the station. However, it was unclear whether these officers were paid accommodation allowance while in their respective duty stations.

Recommendation

Expenditure incurred should be fully supported with the necessary approval documents so that eligibility of the payments can be verified and confirmed.

3.1.15 Governors Trip to Israel

The Governor and his team spent a total of Kshs. 2,157,240 on a training course in Israel. There was no budgetary provision for this item nor was there a policy on training. In addition, there was no needs assessment report on training, to confirm that such training would be beneficial to the County. It could not be confirmed whether the trip was official.

Recommendation

The management should be made to properly account for the expenditure incurred, institute a training policy and confirm that the trips were official and in the best interests of the County.

3.2 Tana River County Council

3.2.1 Local Authority Transfer Fund (LATF)

During the eight months period ending 28 February 2013, the Council received Kshs. 90,637,861 from the Central Government being part of the LATF allocation for the year. In its approved budget, the Council had set aside Kshs. 46,024,620 for implementation of Council's capital projects and community based projects. Analysis of the projects implementation status revealed that projects totaling Kshs. 26,234,620 were not implemented. No reason has been given for lack of these projects.

Recommendation

The management of the defunct Council should make a detailed disclosure on the non-implementation of projects which had been budgeted for.

3.2.2 Cash and Bank Balances

A review of the Council records showed a closing cash and bank balance of Kshs.50,367,737.80 as at 28 February 2013. However, these were balances as per the bank confirmation certificates as at that date and not the reconciled cashbook balances.

Further, a review of the reconciled cash book balance revealed that the General Rate Fund and LATF account were overdrawn by Kshs.4,558,811 and Kshs.8,969,077 respectively. The Kenya Roads Board, National Housing, Savings and Renewals accounts had no reconciliations and the reflected balances could therefore not be confirmed as the accurate balances.

The Council's bank accounts were not closed on 28 February 2013 as required but were closed on 30 May 2013 for which the Council had transferred a total of Kshs.25,096,417.20 to the County Government bank accounts. The Council also transferred Kshs.22,576,296 to the Local Authority Transfer Fund account and Kshs.2,520,121.20 to the County Government Revenue account.

As at the time of closure of the bank accounts, the reconciled cashbook balances indicated an overdrawn balance of Kshs.775,343 for the General Rate Fund Account and Kshs.21,037,518 for the Local Authority Transfer Fund Account. In both instances, the reconciliations showed un-presented cheques amounting to Kshs.4,045,401 being Kshs.2,785,874 for General Rate Fund and Kshs.1,259,527.15 for Local Authority Transfer Fund Account.

The unpresented cheque holders observed were not listed alongside other Council liabilities neither were the respective amounts written back in the Council books before the official hand over.

Recommendation

The Transition Authority should ensure that all bank accounts are closed and balances transferred to the County Government Exchequer account. Monthly bank reconciliations should be done for all accounts to ascertain the correct balances as at 28 February 2013.

3.2.3 Revenue Banking - Overbanking Kshs. 628,202

The Council collected revenue amounting to Kshs. 16,229,673 between 1 July 2012 and 28 February 2013. During the same period the Council banked Kshs. 16,857,875 showing an overbanking of Kshs. 628, 202. The analysis is as follows:

Month	Collections	Bankings	Variance
	Kshs	Kshs	Kshs
July	1,575,745	1,704,669.50	(128,924)
August	1,795,588	1,633,814.45	161,773.55
September	1,478,295	2,754,214	(1,275,919)
October	3,102,444	2,061,688.75	1,040,755.25
November	1,860,951	1,569,688.55	291,262.45
December	2,211,974	1,428,547	783,427
January	2,026,765	824,379	1,202,386
February	2,177,911	3,153,359.20	(975,448.20)
Banked Cheques		1,727,514.55	1,727,514.55)
Total	**16,229,673**	**16,857,875**	**(628,202)**

It was observed that the inconsistency in banking was as a result of direct expenditure from revenue which was later formalized by way of issuance of Council cheques banked to replace the spent revenue and therefore the revenue was not being banked promptly and intact.

Recommendation

Revenue collected should be banked intact and promptly. Regular reconciliations between revenue collected and amounts banked should be carried out and reviewed by a senior responsible officer.

3.2.4 Incorrect Computation of Pay As You Earn

Following the approval of the Collective Bargaining Agreement 2012 (CBA) by the Deputy Prime Minister and Minister for Local Government, the Council effected the new salaries and allowances in the payroll with effect from 1 March 2013. While computing the six months arrears arising from the new CBA, Pay as You Earn (PAYE) deducted from the salary arrears was not correctly computed leading to an understatement of the amount deducted and remitted to Kenya Revenue Authority by Kshs. 794,965.

Recommendation

The correct computations should be done and remittances done as required.

3.2.5 Debtors

The Council had an outstanding debtors balance amounting to Kshs. 74,562,554 as at 28 February 2013. Out of this balance, the contribution in lieu of rates from Central Government owed to the Council was Kshs. 60,804,704. Other debtors beyond Kshs. 300,000 represented Kshs. 9,152,863 while those below Kshs. 300,000 represented Kshs. 4,604,987. There were no permanent records on debtors kept other than excel spread sheets. Debtor's circularization was not done and therefore the figures shown could not be confirmed as the correct balances.

Recommendation

The County Government should maintain proper records and establish a strong debt collection policy. Debtors validation should be done before official handing over is made to the County Government.

3.3 Information System assessment

3.3.1 Computers and Accessories

The County had received twenty one (21) computers, twenty one (21) UPSs and five (5) special orange CDMA modems from the National Treasury (IFMIS Department) which will be solely used for IFMIS.

The County had no data center (server room), however, it is in the process of setting up one. At the time of audit servers had already been delivered and air conditioners put in place. However, the County was still working on the physical and access control.

3.3.2 Network connectivity

There is no established Wide Area Network at the County to connect the various Sub-County offices. The county is in process of laying a Local Area Network at the former Tana River County Council offices to interconnect the systems in place. The County is also in process of laying a fixed cable network connected to Orange (formerly Telkom).

3.3.3 Integrated Financial Management Information System (IFMIS) and G-pay

IFMIS has been installed in the County with two (2) modules operational, i.e. plan to budget and procure to pay. However, it's not yet operational because of the network issues and computers are not fully configured by the National Treasury.

The County had received one computer from The National Treasury which is dedicated for G-Pay. Training for G-Pay had been undertaken for one (1) officer, the Principal Finance Officer, who is meant to operate the system.

3.3.4 Integrated Personnel and Payroll Database (IPPD)

The County has fully installed the IPPD system. The system has been in use since 1 July 2013. The county has one (1) officer who is trained to operate the system who also doubles as the system administrator. Further, analysis of the data extracted from the system revealed that one officer had an irregular Personal Identification Number (PIN).

3.3.5 LAIFOMS

LAIFOMS had been installed in former county council of Tana River. However the system is not operational because staff has not been trained on use of the system. The former council operated on manual system.

3.3.6 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

3.3.7 IT organization structure

The county IT department has two (2) personnel. There are no defined roles and responsibilities on how to oversee the IT operations hence there is no clear segregation of duties.

3.3.8 Non-training of ICT staff on applications in place

Our interview with the ICT staff at the County revealed that no ICT Staff had been trained on the IFMIS and LAIFOMS applications and therefore they could not offer the necessary ICT support to users as it is required. One (1) officer has been trained on IPPD support.

3.3.9 Staff Training on IFMIS

Seventeen (17) officers of the County have been formally trained on IFMIS at the Kenya School of Government; all have access to their respective modules. i.e. plan to budget, procure to pay (which includes invoicing, purchasing orders and accounts payable), cash management, fixed assets, approvers and supervisors.

Recommendations

- The County should develop and approve the key ICT documents that ensure proper management of IT operations. These documents govern key IT operations including use of passwords, back-ups, maintenance of IT equipment, and continuity of IT critical operations in the event of a disaster and network management. In addition, these documents should also be circulated to staff so as to create awareness and ensure compliance.

- The County may consider having a wide area network (WAN) that connects all the sub-counties with the county headquarters to ensure that operations are centrally managed
- The management should ensure the County financial management systems are fully operationalized to improve on efficiency, effectiveness and accuracy in managing, and reporting the county finances.
- The ICT department, as a strategic resource, needs to be adequately staffed and with defined roles so as to effectively manage the IT operations of the county
- Treasury should provide on the ground support to ensure smooth transition and operationalize IFMIS.

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

Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

12 February 2014