

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

REPORT
OF
THE AUDITOR–GENERAL
ON THE
FINANCIAL OPERATIONS
OF
MERU COUNTY

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SPECIAL AUDIT REPORT ON THE OPERATION OF MERU COUNTY GOVERNMENT AND THE FOUR (4) FORMER COUNCILS FOR THE PERIOD 1 JANUARY TO 30 JUNE 2013

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SPECIAL AUDIT REPORT ON THE OPERATION OF MERU COUNTY GOVERNMENT AND THE FOUR (4) FORMER COUNCILS 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. Further, the County Government Act, 2012 section 134 (1) repealed the Local Government Act, Cap 265, and thus effectively dissolving all the 175 Local Authorities and creating 47 County Governments.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 seamless transition process and proper accountability of public resource before, during and after transition to County Governments.

2.0 Audit Objectives

The audit covered the County Executive and the County Assembly and the former County Council of Meru Central, Nyambene, Municipal Councils of Meru and Maua 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
- ICT and G-pay system
- 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.

3.0 Key Audit Findings

Meru County Executive and County Assembly

3.1 Failure to take over the Former Local Authorities

The Meru County Government had not officially taken over the assets and liabilities of the former County Councils of Meru Central and Nyambene together with the former Municipal Councils of Meru and Maua as at the time of audit conclusion on 26 September, 2013, contrary to instructions issued by the Ministry of Local Government vide Circular No. MLG/1333/TY/52 of 18th February, 2013. Arrangements should be made by Transition Authority to have assets and liabilities of the former Councils handed over to the County Government.

3.2 Current Assets and Liabilities

(i) Cash and Bank Balances

The bank accounts of the defunct Local Authorities were not closed and the sub-counties continued collecting and banking revenues in those accounts after 5 March, 2013 in total disregard of requirements of the County Government Public Finance Management Transition Act, 2013. As at 28 February 2013, the accounts had a total balance of Kshs.160,865,488. Further, the County Government maintained one cashbook which was used to record transactions for both the Executive and the County Assembly, although these are distinct accounting units within the County. Separate cashbooks should be opened and maintained for each unit to enhance proper accountability of funds allocated to them. Bank accounts not yet closed should be closed and funds transferred to County Revenue Account.

(a) Un-Spent Funds

The Meru County Government received funds totalling to Kshs.306,154,013 from the National Government during the period under review, to enable it meet its obligations. Out of this amount, Kshs.61,592,200 meant for development of County infrastructure, furnishing of non-residential office premises and the Hansard for the County Assembly was not utilized as at 30 June, 2013 and was therefore retained waiting reallocation in 2013/2014. The retention of the amount was contrary to Section 136 (2) of the Public Finance Management Act, 2012 which requires that unutilized funds at the closure of the financial year be paid back to the County Exchequer Account.

The County Executive should put in place effective programs that will ensure that funds appropriated for particular programs are utilized for the intended purposes.

(ii) Debtors/Receivables

The County Government of Meru did not consolidate or maintain debtors' register. Debtors taken over from the four defunct local authorities under the Meru County totaling Kshs.414,655,796 were also not validated to establish their authenticity. The verification and validation of debtor's records should be done to ensure correct figures are taken over by the County Government and also to facilitate collection.

(iii) Creditors

According to the statement of assets and liabilities as at 28 February 2013, the defunct local authorities had creditors totaling Kshs.85,718,579. However, the County Government did not validate the creditors taken over from the defunct local authorities, and no appropriate records were maintained relating to creditors. The County Government should verify and validate creditors taken over from the defunct Councils and ensure that only genuine creditors are settled.

3.3 Fixed Assets

Motor Vehicles and Office Furniture and Equipment

The County acquired four new motor vehicles valued at Kshs.29,155,934 during the months of May and June 2013. However, logbooks for all the vehicles had not been obtained from Kenya Revenue Authority (KRA). Further, all office furniture and equipment had been taken on charge but had not been labeled. Fixed assets belonging to the defunct local authorities had not been taken over by the County Government as at the time of the audit. The County Government should ensure that all furniture and equipment are labelled and an inventory record maintained and updated regularly. Log books of the motor vehicles should be obtained from KRA immediately.

3.4 Revenue Collection

The County Government opened bank accounts for each sub county where revenue collected was to be deposited. The accounts were opened on 19 April 2013 but revenue collected prior to this date amounting to Kshs.101,223,559 was deposited in the defunct Councils' bank accounts. The County Government should ensure that revenue collected before the accounts were opened is properly accounted for. Revenue should be banked intact in the County Revenue Account.

3.5 Procurement of Goods and Services

(i) Failure to follow Procurement Procedures

The County Government obtained lists of prequalified suppliers from the former Ministry of Public Service, Ministry of Energy and the defunct County Council of Nyambene for use in the procurement of goods and services. However, there was no evidence in the tender committee minutes to show that the committee adopted the lists. Quotations presented for purchase of sixteen (16) HP Laser Jet printers worth Kshs.1,984,000 were not signed by the tender opening committee as required under Section 60(7a) of the Public Procurement and Disposal Act, 2005. Further, award of a tender for supply of 8HP 650 Laptops worth Kshs.1,008,000 was not processed in accordance with the procurement law.

(ii) Single Sourcing of Motor Vehicles

The County Government procured four motor vehicles valued at Kshs.29,155,934 from a motor dealer without inviting bids as required by the Government procurement procedures. The County Government should ensure that all future procurements are made in accordance with the Public Procurement and Disposal Act, 2005 and related 2006 Regulations.

3.6 IT Control Environment

Assessment made on how the County Government of Meru has put in place structures to govern and manage the information systems in place revealed the following weaknesses amongst others:

- The ICT department at the County Headquarters has three (3) employees without defined roles and responsibilities to enable them effectively manage IT operations at the County.
- The County has been supplied with twenty (20) personal computers by Treasury which will be solely used for IFMIS operations. However, a comprehensive ICT inventory for all ICT assets at the headquarters and all the sub-county offices is not in place.
- The County has one (1) data center (server room) at its headquarters and a physical inspection of the data center revealed that the room is also used as an office and therefore has physical access controls; the server is exposed to over-heating because there is no air-conditioning system to control the temperatures and there are no fire extinguishers within reach.
- Local Area Networks (LAN) exist in all sub-county offices but there is no network diagram for the LANs. It is therefore not possible to determine the topology and any weaknesses that could be present. In addition, the ICT manager cannot timely detect and correct any network problem.
- IFMIS has been installed in the County but is not operational due to connectivity challenges. The personal computers that have been installed with IFMIS use Orange CDMA Modems to connect to IFMIS through the Treasury's Virtual Private Network (VPN). In addition, staffs were in the process of being trained.

- The County received one personal computer to be dedicated to G-pay, and G-pay users have been trained. However, all payments are being done manually by use of cheques.
- LAIFOMS had been installed in all the sub-county offices but the application is not centrally managed at the County Headquarters. This is posing challenges in terms of efficient management of the applications.
- The IPPD system had been installed but the County was yet to process the payroll using the system as at September 2013. The Sub-Counties were still processing separate payrolls using LAIFORMS.

The management should develop and approve key ICT systems, documents, procedures, and controls that will ensure efficient management of IT operations within the County. Also, ICT department should be adequately staffed and roles clearly defined for effective management of IT operations at the County.

3.7 Personnel Records

Meru County Government has four (4) Sub Counties whose payrolls should be merged into one. Further, although it was a requirement that the County payroll be in IPPD system, the County Government continued using the LAIFOMS whereby each sub county prepared separate payroll. . Further, staff validation, critical job evaluation and assessments should be done if not yet done to facilitate deployment of key staff to relevant departments. This will also assist in identification of skill gaps and recruitment of new staff to fill the gaps. No staff handing over was done between the former Councils and County Government, contrary to requirements by the County Government Authority Act, 2012.

3.8 Other Findings

(i) Unsupported Expenditure

Expenditure totalling to Kshs.2,984,100 was incurred in payment of allowances to staff and County Representatives. There was no evidence to confirm approval of the allowances and sanctioning of the extra days paid while attending seminars. There were no clear entitlements and no evidence to confirm that the allowances were paid to the purported persons. The budgetary provisions should be followed as stipulated in the financial regulations, and future payment of allowances should be guided by the regulations in force.

(ii) Reallocation of Voted Funds without Authority

The Meru County Government reallocated Kshs.11,328,727, out of the total allocation of Kshs.18,835,100 meant for refurbishment of Non-residential buildings during 2012/2013. No authority for reallocation of funds was obtained and therefore, the expenditure incurred was unlawful. The County Government should ensure that reallocation of funds is done with the required prior approval.

Defunct Municipal Council of Meru

3.9 Improper Handing Over to Transitional Authority/County

Government

There was no proper handing over of the former Municipal Council of Meru assets and liabilities 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 has no records of assets and liabilities owned by the former

Councils, as well as other outstanding debts. The Transition Authority should arrange for proper handing over of assets, liabilities and staff of the former Council to enable the County Government have a basis of opening balances to be reflected in its books of account

3.10 Current Assets and Liabilities

(i) Cash and Bank Balances

The former Municipal Council of Meru operated six bank accounts which had a total balance of Kshs.40,211,054 as at 28 February 2013. However, the defunct Local Authority did not close the bank accounts as required by the County Governments Public Finance Management Transition Act, 2013. Although funds totalling to Kshs.25,361,689 were subsequently transferred to the County Revenue Account in June, 2013 from three bank accounts, they were not closed, and it was also not explained why funds held in Xmas Fund Account were not transferred to County Revenue Account. The County Executive should ensure that all bank accounts of the defunct local authority are closed, balances transferred to County Revenue Account and that lawful instructions are adhered to.

(ii) Debtors

The list availed for audit reflected debtors totaling Kshs.291,649,864 as at 28 February 2013. However, no ledgers were maintained to verify the accuracy and authenticity of the debtors figure as given in the debtors list. The County Government should ensure that a debtors' ledger is maintained and that the outstanding debts are collected or legal action taken against the defaulters.

(iii) Creditors

The creditor's balances for the period ending 31 December 2012, 28 February 2013 and 30 June 2013 remained the same at Kshs.2,626,081. There were no records to verify and confirm the creditors' movement during the entire period. The County Executive should put in place systems to enhance proper accounting for creditors.

3.11 Fixed Assets

Motor Vehicles and Office Furniture and Equipment

The former Clerk to defunct Meru Municipal Council had not handed over motor vehicles and other office equipment to the Transition Authority as at the time of audit verification on 25 September, 2013. However, physical verification disclosed that a log book for Ford Tractor KEB 431 was missing and two fire engines which had been donated to the Council by an individual had not been registered. Therefore, ownership of the assets could not be confirmed. Verification of computers and accessories/furniture and equipment revealed that most items which had been labeled were not physically available.

The County Government should establish the whereabouts of all the listed items which were not available as at the time of audit verification and register all vehicles which had not been registered.

3.12 Revenue Collection

All revenue collected from January 2013 to June 2013 was banked intact as required by the financial regulations. However, after 28 February 2013 revenue was still being banked in the former Council's bank account instead of the County Revenue Account. Rules and regulations governing the collection and banking of revenue should be adhered to.

3.13 Personnel Expenses/IPPD

The former Council was using the LAIFOMS payroll system and did not change to IPPD payroll, although staff establishment remained the same even after transition. The County Government should ensure that IPPD system is adopted for efficient and effective management of human resource payroll and expenditure.

3.14 Other Findings

(i) Unsupported Expenditure

Examination of expenditure records disclosed expenditure totalling to Kshs.2,334,900 in respect of travelling and subsistence allowances, Councilor's office rent, purchase of gravel materials, repair of a residential house at Kinoru, training at Nanyuki, purchase of road signs and upgrading of LAIFORMS. However, no documents were submitted in support of the expenditure incurred. The County Government should always comply with the Government Financial Regulations and Procedures and Public Procurement and Disposal Act, 2005 while procuring goods and services, and while making payments.

(ii) Local Authorities Transfer Fund (LATF)

The former Council received Kshs.32,064,417 from the National Treasury as LATF disbursement on 22 February 2013 and Kshs.29,400,900 spent during the period January to June 2013 in payment of debts. Included in this figure was an amount of Kshs.10,879,358 spent after 28 February 2013 when the bank account was supposed to have been closed. The County Government should always adhere to the rules and regulations governing public spending. It should also follow the budgetary provisions and ensure that any deviations are properly authorized and approved.

Defunct County Council of Nyambene

3.15 Improper Handing over to the County Government

There was no proper handing over of the former County Council of Nyambene assets and liabilities 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 has no records of assets and liabilities owned by the former Council as well as other outstanding debts. The Transition Authority should arrange for proper handing over of assets, liabilities and staff of the former Council to enable the County Government have a basis of opening balances to be reflected in its books of account.

3.16 Current Assets and Liabilities

(i) Cash and Bank Balances

The former County Council of Nyambene operated nine bank accounts in four different banks and had a total balance of Kshs.10,311,018.55 as at 28 February 2013. Operations of the bank accounts were frozen vide letters addressed to the

various banks dated 4 June 2013, directing them to transfer accounts balances to County Revenue Account maintained at the Cooperative Bank Meru Branch. Although the balances were subsequently transferred, the accounts had not been closed as at September, 2013. The County Government should ensure that all bank accounts of the defunct Council are closed in accordance with the legal requirement.

(ii) Debtors /Receivables

The defunct County Council of Nyambene had debtors' balance of Kshs.48,458,565 as at 30 June 2013 made up of contribution in Lieu of Rates and Plot Rents of Kshs.28,966,876 and Kshs.19,491,689 respectively and to confirm accuracy of the balances. The plot rent and rates registers had not been updated to ensure reliance on the figures shown, and to confirm accuracy of the balances. Updated and accurate debtor's ledgers should be maintained for all debtors in the Sub County and proper systems put in place to facilitate debt collection.

(iii) Creditors/Payables

The former Council's creditors' balances totalled Kshs.52,321,761 as at 28 February 2013, comprising suppliers, statutory organisations and salary arrears of Kshs.25,817,689, Kshs.13,239,397 and Kshs.13,321,761, respectively. The former Council did not maintain a creditors' ledger but only provided a listing and a few invoices to support the balances. Creditors' circularization was not carried out for independent confirmation of outstanding creditors' amounts. The County Government should ensure that a creditors' ledger is maintained and all creditors should be verified and confirmed before any payment is made.

3.17 Fixed Assets

Motor Vehicle and Office Furniture and Equipment

An audit verification exercise carried out at the defunct Nyambene County Council offices revealed that the former Clerk to the defunct Council had not handed over the fixed assets to the Transition Authority/County Government. Out of eighteen (18) motor vehicles; four (4) were recorded in the asset register but were not physically available for verification; six (6) were not in the register and not physically verified. Therefore, a total of ten (10) motor vehicles were not physically seen. The Transition Authority should hasten the process of handing over the assets and liabilities to the County Government. The missing motor vehicles should be located, recorded and secured by the County Government.

3.18 Other Findings

(i) Local Authorities Transfer Fund (LATF) Projects and Expenditure

The former Council received LATF disbursement of Kshs.97,190,294 in the month of February 2013 and incurred an expenditure of Kshs.96,013,853, which included Kshs.11,964,484 for Pay As You Earn (PAYE). However, four (4) cheques amounting to Kshs.2,787,796 payable to Kenya Revenue Authority (KRA) for PAYE were replaced by the former Council on 27 February 2013. There was no evidence made available to confirm that the cheques being replaced were returned and cancelled and therefore, replacement of the cheques amounts to double payment. The former Council also incurred an expenditure of Kshs.7,450,383 in procurement and distribution of water tanks to various projects. Twenty seven (27) 10,000 litres and two (2) 4,000 litres capacity plastic water tanks costing a total of Kshs.2,780,000 purchased for distribution were still lying in the former

Council's compound as at the time of the audit in September, 2013. Their safe custody was doubtful.

(ii) General Rate Fund (GRF) Expenditure

(a) Unsupported Casual Wages

Expenditure records for GRF showed that payments totaling Kshs.1,899,325 were made to casual workers for activities carried out at various markets but no authority or approval for engagement of the casuals was made available for audit review. Also, there was no evidence of the number of days worked, the rate of pay per day, ID Nos. and signatures of the recipients.

(b) Payment of Office Rent

Further, an expenditure of Kshs.272,000 was incurred on payment of office rent for all the thirty two (32) wards in the former Council and was paid at a uniform rate of Kshs.8,500 per month. No tangible evidence was availed to show that procurement procedures or otherwise were followed while identifying the rental premises. Also, no evidence was availed to show that rent paid was received by the respective landlords.

(c) Night Out Allowances

In addition, expenditure of Kshs.656,900 and Kshs.192,000 were incurred in payment of night allowances and transportation of tree seedlings respectively, by casual workers to various schools within the thirty two (32) wards within the former County Council. However, no approval for the expenditure totaling to

Kshs.848,900 was made available for audit confirmation. Casual workers should only be engaged ones the necessary approval and authority have been granted and also, all payments made should be properly authorized and supported in accordance with the financial procedures and regulations in force.

(iii) Consultancies

The former Council made payments for Consultancy services totalling to Kshs.4,791,250 in the month of February 2013. Whereas the service providers were prequalified for the services and were awarded contracts to provide training of staff and other Consultancy services, the expenditure included services for updating of cashbooks, debtors and creditors ledgers and preparation of bank reconciliation statements at a cost of Kshs.450,000. No evidence of work done was made available for audit verification since cashbooks, ledgers and bank reconciliation statements were not updated or prepared. The County Government should ensure that expenditure is incurred only on services rendered.

Defunct Municipal Council of Maua

3.19 Improper Handing over to the County Government

There was no proper handing over of the former Municipal Council of Maua assets and liabilities 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 has no records of assets and liabilities owned by the former Council as well as other outstanding debts. The Transition Authority should arrange for proper handing over of assets, liabilities and staff of the former Council to enable the County Government have a basis of opening balances to be reflected in its books of account.

3.20 Current Assets and Liabilities

(i) Cash and Bank Balances

(a) Non-Closure of Bank Accounts

The former Council operated six (6) bank accounts with a balance totalling Kshs.17,742,247 as at 28 February 2013 and a total of Kshs.695,567 as at 30 June 2013. These accounts were not closed on expiry of the three months grace period for reconciliation at the end of May 2013 as required by the County Governments Public Finance Management Transition Act, 2013. Also, the former Council did not maintain a main cash book and consequently bank reconciliation statements prepared were inaccurate. All bank accounts of the former Municipal Council of Maua should be closed and the funds transferred to County Revenue Account. In addition, main cash book should be maintained and accurate monthly bank reconciliation statements prepared to facilitate early detection of errors of omission and commission for necessary correction.

(ii) Debtors /Receivables:

The former Municipal Council had debtors totalling Kshs.55,697,368 as at 28 February 2013, which included plot rate debtors of Kshs.25,246,570. The plot rent and rate registers had not been fully updated and therefore, accuracy of the debtors' balance could not be confirmed. Records of the debtors should be streamlined to ensure accuracy and completeness of the balances. A debt recovery policy should be put in place to facilitate timely and efficient collection of debts.

(iii) Creditors

The former Council had creditors balances totaling Kshs.16,673,225 as at 28 February 2013. However, as at 30 June 2013 the figure stood at Kshs.20,749,407. Although the former Council maintained a creditor's ledger, some figures reflected in the ledger differed with the amounts given in the listings provided. A reconciliation of creditors' balances should be carried to ensure that correct figures are recorded in the ledgers. The ledgers should be updated on regular basis and circularization of creditors done to confirm validity.

3.21 Fixed Assets

Motor Vehicles and Office Equipment

An audit of motor vehicles and office furniture and equipment records, and subsequent physical verification carried out on 5 and 6 September 2013 at the defunct Municipal Council offices revealed that the former Clerk to the Council had not handed over the assets to the Transition Authority. The serial numbers indicated against computers and accessories and equipment were nonexistent although a physical count tallied with the listed items. It was therefore not possible to confirm their ownership. Also, labelling of the furniture was not done. Labeling and serialization of computers and accessories/furniture and equipment taken over from the former Council should be done and accurate records maintained. Safe custody of County assets should be ensured.

3.22 Revenue Collections

During the period January 2013 to June 2013, the former Maua Municipal Council collected revenue totalling Kshs.23,683,012 and banked Kshs.23,258,002,

resulting to an under banking of Kshs.425,010, which had not been accounted for. All revenue collected should be banked intact and properly accounted for.

3.23 Payroll

The former Council was using LAIFOM payroll system and had not started using IPPD payroll. The Council had a workforce of fifty five staff members as at July and December 2012. The number remained the same as at 28 February and 30 June 2013.

3.24 Other Findings

Local Authorities Transfer Fund (LATF)

The former Council received an amount of Kshs.29,986,019 out of the expected amount of Kshs.35,697,642 from the National Treasury. Nineteen (19) projects earmarked for implementation were allocated an amount of Kshs.16,691,404. However, Kshs.7,006,404 meant for some five projects was reallocated to fund enhanced staff salaries (Kshs.2,000,718), statutory deductions Kshs.2,801,513 and other operational expenditure without prior approval. The County Government should always adhere to the rules and regulations governing the utilization of public funds.

Defunct County Council of Meru Central

3.25 Improper handing over to the County Government

There was no proper handing over of the former County Council of Meru Central assets and liabilities 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 has no records of assets and liabilities owned by the former Council as well as other outstanding debts. The Transition Authority should arrange for proper handing over of assets, liabilities and staff of the former Council to enable the County Government have a basis of opening balances to be reflected in its books of account.

3.26 Current Assets and Liabilities

(i) Cash and Bank Balances

The former Council operated seven bank accounts held in three different banks with a total balance of Kshs.92,602,169 as at 28 February 2013. A total of Kshs.44,380,688 was transferred to the County Revenue Account during the month of June, 2013. However, no reason was given as to why these accounts were not closed on expiry of the three months reconciliation period in May 2013 as required by County Governments Public Finance Management Transition Act, 2013. Also, bank reconciliation statements prepared for the Cashbooks maintained were erroneous and could therefore not be relied upon. Accurate bank reconciliations should be prepared to ensure that any errors of omission or commission are detected and corrected timeously.

(ii) Debtors

The defunct County Council debtors' balance of the stood at Kshs.18,850,000 as at 28 February 2013, excluding property rates whose records had not been updated as at the time of audit on 28 August 2013. The defunct Council had not prepared a complete list of the debtor's schedules as at 30 June 2013 and therefore the debtor's position did not change from Kshs.18, 850,000 reported in February 2013. The figure included long outstanding property rent balance of Kshs.14,743,000 in

respect to Meru County Hotel and Kenya Methodist University of Kshs.346,000 and Kshs.4,397,000 respectively. The County Government should update the debtor's records and ensure that only genuine and verifiable debtors' listings and amounts are transferred to the County Government accounts. A debt management policy should be put in place to enhance accountability and recovery of the County's debts.

(iii) Creditors

The former Council had creditor's balances totaling Kshs.14,097,512 as at 31 December 2012 and 28 February, 2013. However, the Council did not maintain a creditors' ledger for the period between January to June 2013, but only provided creditors listing and some few invoices which showed a balance of Kshs.51,484,630 as at 30 June, 2013. Creditors' circularization was not carried out to confirm the outstanding creditor's amounts of Kshs.14,097,512 and Kshs. 51,484,630 as at 28 February 2013 and 30 June 2013 respectively. The creditors listing should be verified, validated and confirmed before any payment is made and a creditor's ledger should be maintained and updated on regular basis.

3.27 Fixed Assets

Motor Vehicles and Office Equipment

The former Clerk to the Council had not handed over the assets to the Transition Authority as at the time of audit in September 2013. Physical verification of motor vehicles, computers and accessories/furniture and equipment revealed that most of the former County Council's vehicles were grounded and serial numbers indicated against computers and accessories/furniture and equipment were nonexistent. It was therefore not possible to establish existence and ownership of the office

equipment and furniture. Labelling and serialization of the computers and accessories/furniture and equipment should be done to ensure safe custody.

3.28 Revenue Collections

During the period January to June 2013, the former County Council collected revenue totalling Kshs.21,215,166 compared to Kshs.44,677,406 collected during the same period in January to June 2012, a decrease of 52.3%. No satisfactory explanation was given for the significant decrease in revenue collection. Also, revenue collected was being used before banking, resulting to a net under banking of Kshs.7,426,379. All revenue collected should be banked intact to ensure proper reconciliation of revenue records and accountability.

3.29 Personnel Expenses

The defunct County Council employed twenty two (22) members of staff in September 2012. The employment did not fully comply with the regulations as the approved estimate for 2012/2013 and approval letter from the Ministry of Local Government dated 17 July 2012, indicated eighteen (18) persons were to be employed. Information available indicated that no advertisement for the vacancies was done and no interviews appear to have been conducted. The circumstances under which the former Council did the recruitment and exceeded the approved number of persons to be employed should be investigated and established.

3.30 Procurement of Goods and Services

(i) Consultancy Services

The County Council/County Government paid a firm of Surveyors an amount of Kshs.681,225 in respect of survey fees for surveying Timau Township. However,

no quotations were flouted before the contract was awarded, contrary to the procurement law. Also, no Council minutes approving the survey works were produced for audit confirmation as well as a report on the surveyed plots.

(ii) Irregular Procurement of Tyres

Payment Voucher Nos.1304-0106 and 1304-0105 both dated 30 April 2013 for Kshs.216,000 and Kshs.72,000 respectively were paid for supply of 6 pcs 1100x20 roadside tyres for vehicles KAB 216Q and 4pcs 750x16 for KUH 692 respectively. The tyres were supplied vide Delivery Note Numbers 84 and 86 dated 30 April2013 and 7 May 2013 respectively. The respective unserialised demand notes were raised on 5 May2013 and 7 May 2013 respectively.

However, no competitive bids were invited as there were no pre-qualified suppliers of tyres. The services were therefore single sourced. In addition, no evidence was availed to show that the tyres were fitted into the above vehicles, or received in the Council stores. Procurement procedures should be adhered to during the procurement of goods and services, and L.P.O.s/L.SO.s should be used before securing goods and services in accordance with Government financial regulations and procedures.

(iii) Irregular Motor Vehicles Repairs

Examination of payment vouchers revealed that an expenditure of Kshs.321,300 was incurred in repair of the former County Council vehicles without following the laid down procurement procedures.

3.31 Other Findings

(i) Repair of Motor Vehicles

A mechanic who allegedly repaired the Council's tractor in 2006 and 2007 provided invoices totalling Kshs.2,882,600, while the creditors' listing shows Kshs.2,200,000, leading to unexplained difference of Kshs.682,000. Validity of the long outstanding payments could not be confirmed.

(ii) Supply of Hardware Materials

A firm supplied hardware materials worth Kshs.3,369,046 to the Council according to creditors' listing provided for audit. However, no invoices were provided to confirm the dates of supply and the quantity supplied. Further, no delivery notes were made available for confirmation of receipt of goods.

(iii) Supply of Fuel

According to the creditors' list provided for audit, Kshs.550,000 worth of fuel was supplied to the former Council. However, no invoices were made available to confirm when the fuel was supplied, and therefore the outstanding amount cannot be confirmed.

(iv) Casual Labourers

Two casual watchmen were indicated owed a total of Kshs.1,500,000 when they were engaged by the Council between 1996 to 2007, worked for 365 days including public holidays and weekends without off-duty as evidenced by the muster rolls made available for audit scrutiny. Although the matter was tabled, discussed and approved by the Finance and General Purpose Committee as per

Minutes No FS&G.P.C.16/2008, no efforts appear to have been made by the former Council to pay the watchmen the hours they worked.

(v) Irregular Expenditure on Travel and Accommodation

Examination of payment vouchers revealed that payments totaling Kshs.150,000 were made without any supporting documents to ascertain that the officers travelled to the indicated destinations and qualified for night out allowances.

(vi) Irregular Payment of Tea Allowances

Examination of payment vouchers revealed that Kshs.65,000 was spent in payment for 10 o'clock tea allowances to individuals instead of the Council providing tea. However, it was not clear why the token was paid to particular officers as no Government Financial Regulations and Procedures or Council resolutions allow such payments. The County Government should recover the amount paid to the officers and ensure that financial regulations and procedures are adhered to.

(vii) Payment of Lunch Allowances, Beautification and Repairs of Chamber Seats

An expenditure of Kshs.244,750 was incurred by the Council in payment of lunch allowances to officers based at the County headquarter offices. The payments were made to individuals for purported works and repairs carried out in readiness for the swearing in of the County Representatives but without supporting documentation. All payments should have supporting documents and should be in accordance with the existing financial procedures.

The County Government should ensure that verification and validation of the creditors is carried out before any payment is made and that a creditor's ledger is maintained and updated on regular basis.

3.32 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 systems to be developed by the Public Sector Accounting Standards Board in accordance with Section 194 of the PFMA, 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

AUDITOR-GENERAL

10 January, 2014

DETAILED AUDIT REPORT OF MERU COUNTY EXECUTIVE AND COUNTY ASSEMBLY AND THE FOUR (4) DEFUNCT LOCAL AUTHORITIES FOR THE PERIOD 01 JANUARY TO 30 JUNE 2013

1.0 Introduction

The operations of the Meru County Government are subject to audit by the Auditor General in accordance with Section 229 (4), (5) and (6) of the Constitution of Kenya and the Public Audit Act, 2003.

2.0 Audit Objectives

The following were the main audit objectives:

- Confirm existence of proper accountability of cash and bank balances before, during and after transition to the County Government.
- Confirm that revenue and expenditure were recorded and properly accounted for before, during and after the transaction period.
- Confirm that operational debtors and creditors were accurately recorded and transferred from the defunct local authority to County Government.
- Establish that assets taken over by the County Government are properly listed, exist and are being used to provide services to the County.
- Ensure that assimilation of the defunct local authority's 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 Committees comply 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.
- Confirm that where manual systems are in use, proper accountability system is put in place and specific plans for system changeover exist.
- 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

Meru County Executive and County Assembly

3.1 Failure to take over the Defunct County Councils of Meru Central and Nyambene and the Municipal Council of Meru and Maua

The Meru County Government had not officially taken over the assets and liabilities of the former County Councils as at the time of audit conclusion on 26 September, 2013, contrary to instructions issued by the Ministry of Local Government vide Circular No. MLG/1333/TY/52 of 18th February, 2013. Arrangements should be made by Transition Authority to have assets and liabilities of the former Councils handed over to the County Government. The former Councils' assets and liabilities closing balances will assist the County Government in determining opening balances to be reflected in its books of account.

Recommendation

The Transition Authority should ensure that a statement of assets and liabilities as at 28 February 2013 is prepared and proper handing over to the County Government done without further delay.

3.2 Current Assets and Liabilities

(i) Cash and Bank Balance

The County Executive opened six bank accounts in the month of March 2013 and had balances totaling Kshs.339,650,027 as at 30 June 2013. The County opened four Cooperative bank accounts for the Sub Counties to enable them bank revenue after closure of the accounts held by the defunct Local Authorities. However, accounts of the defunct local authorities were not closed on 5th March 2013 or after the three (3) months allowed by the County Governments Public Finance Management Transition Act, 2013 and instead the sub counties continued banking revenue in those accounts. As at 28 February 2013, the Council's had a total of Kshs.160,865,488 in their various bank accounts.

Recommendation

The bank accounts should be closed and the funds transferred to the County Government Revenue Account in accordance with instructions given in the County Governments Public Finance Management Transition Act, 2013.

(a) Un-Spent Funds

During the period 5 March to June 2013, the Meru County Government received funds totaling Kshs.306,154,013 from the National Government, to enable it meet its obligations. The amount was received through the Main Revenue Account maintained at the Kenya Commercial Bank, opened on 19 April 2013. Out of this amount, Kshs.61,592,200 meant for development of County infrastructure and furnishing of nonresidential office premises and the Harnsard for the County Assembly was not utilized before the closure of the financial year 2012/2013, and was therefore retained awaiting reallocation in the 2013/2014 financial year. The

retention of the amount was contrary to Section 136 (2) of the Public Finance Management Act, 2012 which requires that unutilized funds at the closure of the financial year be paid back to the County Exchequer Account.

Recommendation

The County Executive should put in place effective measures that will ensure that funds appropriated for particular programs are utilized within that financial year and for the intended purposes.

(ii) Debtors /Receivables

During the period ended 30 June 2013, the County Government of Meru did not validate or consolidate its debtors and did not maintain debtor's register. Debtors taken over from the defunct Local Authorities under the Meru County totalled Kshs.414,655,796 as detailed below:

Defunct Council		Amount (Kshs)
County Council of Nyambene	-	48,458,564
County Council of Meru Central	-	18,850,000
Municipal Council of Meru	-	291,649,864
Municipal Council of Maua	-	<u>55,697,368</u>
Total	-	<u>414,655,796</u>

Recommendations

Verification of debtor's records should be done to ensure correct balances are taken over by the County Government. Also, systems should be put in place to enhance proper recording and recovery of debtors.

(iii) Creditors

According to the statement of assets and liabilities as at 28 February 2013, the defunct Local Authorities had creditors totaling Kshs.85,718,579 as shown below:-

Defunct Council	Amount (Kshs)
Meru Municipal Council	- 2,626,081
Meru Central County Council	- 14,097,512
Nyambene “ “	- 52,321,761
Maua Municipal Council	- <u>16,673,225</u>
Total	- <u>85,718,579</u>

The creditors taken over from the defunct local authorities as at 28 February 2013 had not been validated and there were no accurate and reliable records maintained relating to the creditors.

Recommendation

The County Government should validate the creditors taken over from the defunct Councils to remove any ghost creditors. Also, proper systems for recording creditors should be developed and implemented.

3.3 Fixed Assets

Motor Vehicles and Office Furniture and Equipment

An audit verification exercise carried out at Meru Executive offices on 26 September 2013 revealed that all the four new motor vehicles procured at a cost of Kshs.29,155,934 in the months of May and June, 2013 had been recorded in the fixed assets register. However, logbooks for all the vehicles had not been obtained from Kenya Revenue Authority (KRA). Further, all the computers and

accessories/office furniture and equipment procured had been taken on charge but had not been labeled. Also motor vehicles, office furniture and equipment of the defunct Local Authorities had not been taken over by the County Government as at the time of audit in September, 2013. This may lead to loss of some assets.

Recommendation

The County Government should ensure that all movable assets are labeled, recorded in an inventory which should be updated from time to time. Log books of the motor vehicles should be obtained from KRA immediately.

3.4 Revenue Collection

The County Government opened bank accounts for each sub county where revenue collected was to be banked. The bank accounts were opened on 19 April 2013 but revenue collected prior to this date totaling to Kshs.101,223,559 was deposited in the defunct Councils various bank accounts as analysed below:

Particulars	Balances 30/06/2013	
Bank Particulars		
MAUA MC	12,522,321.05	COOP Bank MERU
NYAMBENE CC	4,079,569.70	COOP Bank MERU
MERU CC	54,771,866.10	COOP Bank MERU
MERU MC	<u>29,849,802.55</u>	COOP Bank MERU
TOTAL	<u>101,223,559.40</u>	

Recommendation

The County Government should ensure that revenue collected before the County bank accounts were opened was properly accounted for.

3.5 Procurement of Goods and Services

(i) Failure to follow Procurement Procedures

The County Government obtained lists of prequalified suppliers from the former Ministry of Public Service, Ministry of Energy and the defunct County Council of Nyambene for use in the procurement of goods and services. However, there was no evidence in the tender committee minutes to show that the committee adopted the lists. Quotations presented for purchase of sixteen (16) HP Laser Jet printers worth Kshs.1,984,000 had not been signed by the tender opening committee as required under Section 60(7a) of the Public Procurement and Disposal Act, 2005.

Further, a payment for supply of 8HP 650 Laptops worth Kshs.1,008,000 was supported with three quotations attached to the payment voucher but signatures of the members of the opening committee for quotations from some two suppliers were not appended. Quotations from the two suppliers were not validly opened and therefore, procurement process was not properly followed in award of the tender.

(ii) Single Sourcing of Motor Vehicles

The County Government procured four motor vehicles valued at Kshs.29, 155,934, from a Nairobi based motor dealer without inviting bids as required by procurement procedures. The vehicles were purchased in the months of May and June, 2013.

Recommendations

The County Government should ensure that all future procurements are done in accordance with the Public Procurement and Disposal Act, 2005, and related 2006 Regulations.

3.6 IT Control Environment

Assessment made on how the County Government of Meru has put in place structures to govern and manage information systems revealed the following weaknesses amongst other:-

The County recently advertised for a supplier for the development of an ICT strategy and the scope of work will include:

- Determining the best IT platform to be utilized by the County
- Identifying areas where technology can be adopted, and
- Development of ICT policies and procedures

However, currently ICT department at the County headquarters has three (3) employees with no defined roles and responsibilities to enable them effectively manage IT operations at the County.

The County has been supplied with twenty (20) personal computers by the National Treasury to be solely used for IFMIS operations. It was however noted that the county does not have a comprehensive ICT inventory for all ICT assets at the Headquarters and all the sub-county offices. It is therefore unlikely that the ICT staff can manage the ICT assets and provide the necessary hardware maintenance.

The County has one (1) data center (server room) at the County headquarters and a physical inspection of the data center indicated the following:

- (i) The room is also used as an office and therefore has no physical access controls.

- (ii) The server is exposed to over-heating and there's no air-conditioning system to control the temperatures.
- (iii) There are no fire extinguishers within reach.

There are Local Area Networks (LAN) in all the sub-county offices but there is no network diagram for each of the LAN. It is therefore not possible to determine the topology and any weaknesses that could be present. In addition, the ICT manager cannot timely detect and correct any network problem.

IFMIS has been installed in the County but it is not operational due to inadequate training of ICT staff. The personal computers that have been installed with IFMIS will use Orange CDMA Modems to connect to IFMIS through the Treasury's Virtual Private Network (VPN). In addition, County staffs were in the process of being trained. The county has also received one personal computer that will be dedicated to G-pay. Currently, all payments are done manually by use of cheques. LAIFOMS had been installed in all the sub-county offices but the application is not centrally managed at the county headquarters. It therefore poses a challenge in terms of managing these applications.

3.7 Personnel Records

The payroll for the County Government was required to be in the IPPD system but it continued using LAIFOMS, whereby each sub county's payroll was prepared separately. The only items merged were schedules of net salaries to various banks and the deductions (statutory and others). The sub County's had the following levels of personnel;

<u>Particulars</u>		<u>No. of Staff</u>
Meru Municipal Sub County	-	184
Meru Central Sub County	-	182
Nyambene Sub County	-	117
Maua Municipal Sub County	-	55
County Executive	-	16
County Assembly	-	<u>46</u>
Total	-	<u>600</u>

Recommendation

The County Government should comply with regulations and have personnel trained to handle the IPPD payroll for effective and efficient management of Human Resource.

3.8 Other Findings

(i) Unsupported Expenditure

Examination of payment vouchers disclosed that an expenditure of Kshs.2, 984,100 was incurred in payment of allowances to staff and County Representatives while attending seminars. However, there was no authority or any approval for the allowances and the extra days paid. Also, there were no clear guidelines on the entitlements. Consequently, propriety of Kshs.2,984,100 spent on allowances could not be confirmed.

Recommendation

The County Government should follow the budgetary provisions as stipulated in the financial regulations and that payments of allowances should be guided by the regulations in force.

(ii) Reallocation of Voted Funds without Authority

The Meru County Government reallocated Kshs.11,328,727 out of the total allocation of Kshs.18,835,100 meant for the refurbishment of Non-residential buildings. However, no authority for reallocation of funds was obtained and therefore the expenditure incurred was unlawful.

Recommendation

The County Government should ensure that no reallocation of funds is done without the required approval.

Report on the Defunct Municipal Council of Meru

3.9 Handing Over of Municipal Council's Assets and Liabilities

to the County Government

There was no proper handing over of the former Municipal Council of Meru assets and liabilities to the Transition Authority as required by the Ministry of Local Government Circular of February, 2014. This was apparently because the Transition Authority only required the former employees to hand over official documents, assets and office equipment in their possession. The statement prepared did not set out a debt management strategy and also assumption underlying the debt management strategy and an analysis of the sustainability of the amount of debt actual and potential as required by the Ministry circular.

Recommendations

i) The County Government should ensure that former Chief Officers of the defunct Local Authority properly hand over the assets and liabilities.

- ii) *There should be full disclosure of outstanding debts in order to ensure that the County Government only inherits genuine debts.*

3.10 Current Assets and Liabilities

(i) Cash and Bank Balances

The former Municipal Council of Meru operated six bank accounts and the balances as at 28 February 2013 were as shown below:-

Bank	Name	Amount (Kshs)
Cooperative Bank	GRF	4,125,392
Cooperative Bank	Xmas Fund	151,554
Cooperative Bank	KRB	888,697
National Bank	LATF	<u>35,045,411</u>
Total		<u>40,211,054</u>

However, the defunct Local Authority did not close the bank accounts as required by the County Governments Public Finance Management Transition Act, 2013. The Local Authority however made transfers totaling Kshs.25,361,689 to the County Revenue Account in the month of June 2013 as shown below:

Bank	Account Name	Amount (Kshs)
Coop bank	GRF	6,985,542
Coop bank	KRB	887,147
National Bank	LATF	<u>17,489,000</u>
Total		<u>25,361,689</u>

Although, the above funds transfers were made, the accounts were not closed and it was also not explained why funds in the Xmas Account were not transferred to the

County Revenue Account. The former Council did not conduct a board of survey at the time of transferring funds from the three bank accounts to the County Revenue Account.

Recommendation

The County Executive should ensure that all accounts of the defunct Local Authorities are closed and funds not yet transferred to the County Government are transferred.

(ii) Debtors

The list of debtors availed for audit reflected a figure of Kshs.291,649,864 as analysed below:-

Item	Amount (Kshs)
Contribution in lieu of rates	165,639,512
Property rates	107,690,761
House rent arrears	4,796,850
Sewerage charges	<u>13,522,741</u>
Total	<u>291,649,864</u>

However, proper systems for recording debtors did not exist as no ledgers or other subsidiary records were maintained. As a result, accuracy and completeness of the debtor's balance reported could not be confirmed.

Recommendations

The County Government should ensure that proper systems of recording debtors are developed to ensure reliability and accuracy of the records. Also, a debt

collection policy should be developed to ensure prompt recovery of all outstanding rates and rents.

(iii) Creditors

The creditor's balance as at 31 December 2012, 28 February 2013 and 30 June 2013 remained the same at Kshs.2,626,081, and had been brought forward from the financial year 2009/2010. No systems for recording creditors existed and therefore, accuracy and completeness of these balances could not be confirmed.

Recommendation

The County Government should investigate why these creditors have been outstanding for such a long period and proper systems put in place for accurate and reliable recording of creditors as well as their validity.

3.11 Fixed Assets

Motor Vehicle and Office Furniture and Equipment

An audit verification exercise carried out at the defunct Meru Municipal Council offices on 25 September 2013 revealed that the former Clerk to the defunct Council had not handed over assets to the Transition Authority. The physical verification however, disclosed that all the Council's motor vehicles had been properly recorded in the asset register and ownership status established vide the log books provided except for one Ford Tractor KEB 431 whose log book was missing. Also, two fire engines shown below had not been registered and on further enquiry it was explained that they had been donated by an individual. However, no documentary evidence was produced in support of the explanation.

Vehicle

Registration No.	Make	Remarks
N408CBW	Volvo FL 6 Fire Engine	Not registered and no log book
J824MFC	Volvo FL7 Water Tanker	Not registered and no log book

Verification of computers and accessories/furniture and equipment revealed that most items which had been listed were not physically available, and therefore their existence could not be confirmed.

Recommendations

- (i) The County Government should establish the whereabouts of all the listed items which were not available as at the time of the audit verification, take them on charge and promptly record them in assets register.*
- (ii) All unregistered vehicles should be registered and log books obtained from Kenya Revenue Authority as evidence of ownership and for safe custody.*

3.12 Revenue Collection

Examination of revenue records disclosed that revenue collected during the period January to June 2012 amounted to Kshs.47,929,817 compared to Kshs.79,803,784 collected during the same period in year 2013. All the revenue collected from January 2013 to June 2013 was banked intact as required by the financial regulations. Although the revenue continued to be banked in the former Council account even after 28 February 2013 instead of the County Revenue Account.

Recommendation

The County Government should ensure that rules and regulations governing collection and banking of revenue are adhered to.

3.13 Personnel Expenses

The former Council was using the LAIFOM payroll system and did not change to the IPPD payroll, although staff establishment remained the same even after transition.

Recommendation

The County Government should ensure that IPPD System is adopted at the Sub-County levels to enhance efficient and effective management of human resource payroll and expenditure.

3.14 Other Findings

(i) Unsupported Expenditure

Examination of payment vouchers disclosed unsupported expenditure totaling Kshs.2,334,900 and the following anomalies were noted:

- (i) No documentary evidence was attached to support travel for official duties and justify night out claims by various County/Council Officials totaling Kshs.1,284,000.
- (ii) No evidence of request for temporary imprest by the officers was seen as the financial regulations require.
- (iii) The payment voucher did not have the personal numbers and grades of the officers.

- (iv) A uniform rent at the rate of Kshs.10,000 and totalling to Kshs.160,000 was paid for Councillor's various offices and no evidence was availed on how the services were identified. Also, the attached receipts to the payment vouchers did not bear addresses of the recipient of the rent and no evidence was availed to confirm that the landlords actually received the money paid for the rented offices.
- (v) No evidence was availed on competitive bidding for the gravel materials for Gakoromane open air market (Kshs.100,000), repair of residential house at Kinoru (Kshs.76,900) LAIFOMS, training at Nanyuki (Kshs.138,500), purchase of road signs (Kshs.200,000) and upgrading of LAIFORMS (Kshs.350,000). Under the above circumstances, the expenditure of Kshs.2,334,900 could not be confirmed as proper charge to public funds.

Recommendations

- i) The County Government should always comply with the Government Financial Regulations and Procedures/Public Procurement and Disposal Act, 2005 while procuring goods, works and services.*
- ii) All payments should have the necessary supporting documents before effecting any approvals.*

(ii) Local Authorities Transfer Fund (LATF)

The former Council received an amount of Kshs.32,064,417 from the National Treasury as LATF second disbursement on 22 February 2013 spent Kshs.29,400,900 between January to June 2013 in payment of debts as analysed below:-

<u>Particulars</u>		<u>Amount (Kshs.)</u>
Lapro Fund	-	3,264,642
Laptrust	-	5,857,578
Kenya Revenue Authority	-	7,486,714
Projects	-	3,192,420
Salaries & wages	-	8,615,674
Advocate fee	-	<u>983,872</u>
Total		<u>29,400,900</u>

Included in this figure was Kshs.10,879,358 spent after 28 February 2013 when the LATF bank account was supposed to have been closed.

Recommendation

The management should adhere to budgetary provisions and ensure that commitments are made against available funds to avoid incurring debts.

Report on the Defunct County Council of Nyambene

3.15 Improper handing over to the County Government

There was no proper handing over of the former County Council of Nyambene assets and liabilities to the Transition Authority as required by the Ministry of Local Government Circular of February, 2013. The statement of assets and liabilities as at 28 February, 2013 which was supposed to form part of the handing/taking over report was not signed by the Interim County Secretary to signify the taking over of the assets and liabilities of the defunct Local Authority. Also, the statement did not set out a debt management strategy as required by the Ministry of Local Government or set out assumption underlying the debt

management strategy and an analysis of the sustainability of the amount of debt actual and potential as required by the Ministry circular.

Recommendation

The Transition Authority should ensure that a proper handing over of assets and liabilities of the former Council is done without further delay.

3.16 Current Assets and Liabilities

(i) Cash and Bank Balances

The former County Council of Nyambene operated nine bank accounts with balances totaling to Kshs.11,728,477 as at 28 February 2013 as shown below:

Bank Particulars	Account Particulars	Balances (Kshs)
Consolidated Bank	LATF A/C	6,205,114.85
COOP Bank	Crop Cess	848,358.65
Consolidated Bank	GRF	2,900,847.00
Kenya Commercial Bank	GRF	187,400.05
Consolidated Bank	Renewal Fund	3,434.00
Cooperative Bank	GRF	10,073.00
Consolidated Bank	KKU	39,032.00
Cooperative Bank	LATF	116,759.00
Barclays Bank	LATF	<u>0</u>
Total		<u>10,311,018.55</u>

However, the defunct Local Authority did not close the bank accounts as at 28 February 2013 as directed by the Transitional Authority. The operations of the

bank accounts were frozen vide letters dated 4 June 2013 addressed to the various banks and directing them to transfer the balances held in the various accounts to County Revenue Account maintained at the Cooperative Bank - Meru Branch. Although the balances in the accounts were subsequently transferred, the accounts had not been closed as at the time of the audit in September 2013. The Council also did not conduct a board of survey at the time of transferring the funds to the County Bank Account to ascertain the correct balances as at the time of transfer. The Council did not prepare a main cashbook for the GRF accounts which had a receipts and payment cashbook. Also, there were no bank reconciliations statements prepared by the Council to confirm accuracy of bank and cashbook balances as at 28 February, 2013.

Recommendation

The County Government should ensure that all bank accounts of the defunct Council are closed and bank reconciliation statements prepared for all accounts previously operated by the former Councils.

(ii) Debtors /Receivables

The defunct County Council records reflected debtors’ figure of Kshs.48,458,565 as at 30 June 2013 as shown below:

Contribution in Lieu of Rates	-	Kshs.28,966,876
Plot Rents	-	<u>Kshs.19,491,689</u>
Total	-	<u>Kshs.48,458,565</u>

The debtors’ balance includes an amount owed by the National Government which had been charged interest of Kshs.262,818 which ordinarily is not payable by the

government. Further, the contribution in lieu of rates was not supported by admission of liability by the relevant government ministry. The plot rent and rates registers had not been updated to ensure reliance on the figures shown. The cut off periods for the months of December 2012 and 28 February 2013 was not done as there were challenges in accruing the rates which are usually due at the beginning of the calendar year and not the financial year. As a result, accuracy of the Council's debtor's balances could not be confirmed.

Recommendation

The County Government should ensure that debtor's ledger is maintained and updated. The outstanding debts should also be recovered.

(iii) Creditors/Payables

The former Council had creditors' balances totaling Kshs.52,321,761 as at 28 February 2013 which included statutory organisations, salary arrears and suppliers balances of Kshs.13,239,397, Kshs.13,264,675 and Kshs.25,817,689 respectively. However, the former Council did not maintain a creditors' ledger for the period under review but only provided creditors listing and some few invoices to support the balances. Also, creditors' circularization was not carried out to confirm validity of the outstanding creditors' balances. The following observations were also made in respect to some creditors:-

- (i) A Consultancy firm was paid Kshs.498,400 on 22 February 2013 for training Council employees on revenue collection. The training could not however be justified as no schedule of the trained staff was made available for audit review.

- (ii) Another Consultancy firm was paid Kshs.995,030 for preparation of 2011/2012 financial statements at a cost of Kshs.497,280 and training members of staff on customer care at Kshs.497,750. Although the financial statements were prepared, no invoice was produced to support the payment. Further, no evidence was made available to confirm that training of staff took place.
- (iii) Another firm of Consultants was paid Kshs.495,000 for training staff on Alcohol, Drugs and Substance abuse. However, no documentary evidence was produced for audit review to confirm that the training was conducted.

Recommendation

The County Government should ensure that a creditors' ledger is maintained and validity of creditors confirmed before any payment is made.

3.17 Fixed Assets

Motor Vehicles and Office Furniture and Equipment

An audit verification exercise carried out at the defunct Nyambene County Council offices on 13 and 16 September 2013 revealed that the former Clerk to the defunct Council had not handed over the fixed assets to the Transition Authority/County Government. However, the verification revealed the former Council had a total of eighteen vehicles of various makes out of which only twelve were recorded in the assets register. Out of the eighteen vehicles, eleven were not available for physical verification and their whereabouts could not be established. Also, several furniture, equipment/computers and accessories physically verified were not recorded in the assets register. Under the circumstances, existence of several assets could not be confirmed.

Recommendation

The assets should be properly recorded in a register to ease identification and custody.

3.18 Other Findings

(i) Local Authorities Transfer Fund (LATF) Projects and Expenditure

(a) Irregular Double Payment of PAYE

The former Council received LATF disbursement of Kshs.97,190,294 in the month of February 2013, out of which Kshs.96,013,853 was spent as shown below:-

<u>Particulars</u>	<u>Amount (Kshs)</u>
PAYE	11,964,484
Salaries and wages	8,682,655
Capital projects	41,927,564
Market planning	7,751,700
Survey and planning of Turangwi A&B	7,896,200
Consultancy	4,791,250
Transfer to GRF	<u>13,000,000</u>
Total	<u>96,013,853</u>

The expenditure for PAYE includes cheques amounting to Kshs.2,787,796 payable to Kenya Revenue Authority (KRA) which were replaced by the former Council in the month of February 2013 as shown below:

Chq No.	Date	Particulars	Amount (Kshs)
101404	27/2/2013	PAYE	712,044
101405	27/2/2013	PAYE	692,184
101406	27/2/2013	PAYE	691,784

101409	27/2/2013	PAYE	<u>691,784</u>
Total			<u>2,787,796</u>

However, the cancelled cheques being replaced were not made available for audit verification. The cheques were said to have been wrongly addressed and the payee indicated as Income Tax PAYE instead of Commissioner of Income Tax. In the absence of the cancelled cheques, the expenditure of Kshs.2,787,796 amounts to double payment.

(b) Non-Distribution of water tanks

The former Council incurred an expenditure of Kshs.7,450,383 in procurement and distribution of water tanks to various projects. However, twenty-seven (27) 10,000 litres capacity and two (2) 4,000 litres capacity plastic water tanks purchased at a cost of Kshs.100,000 and Kshs.40,000 each respectively and at a total cost of Kshs.2,780,000 had not been distributed to the expected destinations. The water tanks were still lying at the Sub County headquarters as at the time of audit in September 2013.

(c) Consultancy Fees

The former Council made payments for Consultancy services totaling Kshs.4,791,250 in the month of February 2013. The Consultants were awarded contracts to provide training of staff and other Consultancy services, updating of cashbooks, debtors' and creditors' ledgers and preparation of bank reconciliation statements. However, evidence of work done was not made available for audit verification as there were no bank reconciliations prepared or creditors' and debtor's ledger in place for which a sum of Kshs.450,000 was paid. The former

Council also did not provide a schedule of persons trained in records management for which an additional expenditure of Kshs.450,000 was incurred. Consequently, propriety of expenditure totalling Kshs.900,000 incurred on consultancy services could not be confirmed.

Recommendation

The cancelled cheques should be investigated to facilitate refund in case of double payment or criminal proceedings initiated in case it involved fraudulent activities. Also, water tanks not yet distributed should be distributed for the citizens to get the services and value for money spent. Funds spent on consultancies should also be supported with deliverables.

(ii) General Rate Fund (GRF) Expenditure

(a) Unsupported Casual Wages

Examination of expenditure charged under GRF revealed that payments totaling to Kshs.1,899,325 made to casual workers for activities carried out at various markets had the following anomalies:

- (i) Approval for engagement of the casuals was not seen.
- (ii) The number of days the casuals worked, rate of pay per day and Identification Numbers were not indicated in the schedules attached in support of payments.
- (iii) The recipients' did not append their signatures as evidence of receipt of the money.
- (iv) Temporary imprests applications where attached did not indicate the personal numbers and grades of the applicants, while surrender of the temporary imprests was made by the cashier other than the applicants.

The above observations render authenticity of expenditure totalling Kshs.1,899,325 charged to GRF doubtful.

(b) Payment of Office Rent

An expenditure of Kshs.272,000 was incurred on payment of office rent for all the thirty two (32) wards in the former Council. The audit revealed that rent for all the offices was paid at a uniform rate of Kshs.8,500 per month but no tangible evidence was availed to show how the service providers were identified. Further, no evidence was availed to show that the rent paid was received by any landlord. Consequently, propriety of the expenditure of Kshs.272,000 cannot be confirmed.

(c) Night out allowances

Expenditure totaling to Kshs.656,900 and Kshs.192,000 were incurred on payment of night allowances and transportation of tree seedlings to various schools within the thirty two wards of the former County Council. However, the following anomalies were noted:

- (i) No documentary evidence was attached to support night out claims for official duties.
- (ii) No temporary imprest(s) were applied for before the work commenced.
- (iii) The payment vouchers did not have the personal numbers and grades of the officers involved.
- (iv) The distances to the various destinations differ and no reason or evidence was given on the standardization of the amounts at Kshs.6,000.

In view of the above, the propriety of expenditure totalling Kshs.848,900 could not be confirmed.

Recommendations

- (i) Casual workers should only be engaged after getting authority to employ and a master roll should be used to confirm attendance and payment.***
- (ii) All payments made should be supported with relevant documents for purposes of proper accountability.***

Report on Defunct Municipal Council of Maua

3.19 Improper Handing over to the County Government

There was no proper handing over of the former Municipal Council of Maua assets and liabilities to the Transition Authority as required by the Ministry of Local Government Circular of February, 2013. The statement of assets and liabilities which was supposed to form part of the handing/taking over report had not been signed by the Interim County Secretary to signify the taking over of the assets and liabilities of the defunct Local Authority.

The statement also did not set out a debt management strategy as well as assumption underlying the debt management strategy and analysis of the sustainability of the amount of debt actual and potential as required by the Ministry Circular.

Recommendation

A proper handing over of assets and liabilities of the former Council should be done to the County Government without further delay.

3.20 Current Assets and Liabilities

(i) Cash and Bank Balances

The former Council operated six bank accounts as at 28 February 2013 as shown below:-

Bank Particulars	Accounts	Amount (Kshs.)
Coop Bank	GRF	934,021
Coop Bank	GRF	2,213,826
Coop Bank	LATF	13,984,516
Coop Bank	RMLF	368,838
Coop Bank	KKV	101,000
National Bank	Renewals Fund	<u>140,046</u>
Total		<u>17,742,247</u>

However, no reason was given as to why these accounts were not closed on expiry of the three months at the end of May 2013, as was required by the County Governments Financial Management Transition Act of 2013.

The defunct Local Authority had a total of Kshs.695,567 in the various bank accounts as at 30 June 2013 as shown below:

Bank Details	Account	Amount (Kshs.)
Coop Bank	GRF	373,095
Coop Bank	GRF	174,205
Coop Bank	LATF	1,000
Coop Bank	RMLF	1,000
Coop Bank	KKV	1,000
National Bank	Renewals Fund	<u>145,267</u>
Total		<u>695,567</u>

The funds in LATF, RMLF and KKV accounts were transferred to the County Revenue Account in the month of June 2013, but a balance of Kshs.1,000 was left in each of the bank accounts for unknown reasons. The accounts were therefore not closed as required by the Act. The balances reflected against two GRF accounts at Co-operative Bank and Renewals Fund account at National Bank were not transferred to the County Revenue Account and no explanation has been given for the omission.

Further, the former Council did not conduct a board of survey at the time of transferring funds from the three Bank accounts to the County Revenue Account, which would have confirmed correctness of the balances being transferred. Also, a main cashbook was not maintained and consequently, bank reconciliation statements prepared were inaccurate and could not serve the intended purpose of confirming accuracy of funds held in the various bank accounts.

Recommendation

The County Government should ensure that all bank accounts of the former Municipal Council of Maua are closed and a board of survey conducted to confirm accuracy of the balances transferred to the County Revenue Account. In addition, main cash book should be maintained and accurate bank reconciliation statements prepared monthly to facilitate early detection and correction of errors.

(ii) Debtors /Receivables

The former Municipal Council had debtors totalling to Kshs.55,697,368 as at 28 February 2013 as shown below:-

Item		Amount (Kshs)
Contribution in lieu of rates	-	24,790,437
Plot rate debtors	-	25,246,570
Plot rent debtors	-	3,476,561
House rent arrears	-	106,800
Bus park stalls	-	1,782,000
NHC house rent	-	<u>295,000</u>
Total	-	<u>55,697,368</u>

The above balance includes amount due from the Government in respect to interest charged of Kshs.2,537,759 which ordinarily is not payable by the Government. Further, contribution in lieu of rates figure of Kshs.24,790,437 was not supported by admission of liability by the relevant Government Ministry. Also, plot rent and rates registers had not been updated to ensure reliability and completeness of the balances shown. Further, cut off periods for the months of December 2012, 28 February and 30 June 2013 were not determined due to challenges in accruing the rates which are usually due at the beginning of the calendar year and not the financial year.

Recommendations

Accurate, complete and reliable records should be maintained by the County Government. Also, a debt collection policy should be put in place to facilitate recoverability of long outstanding debts.

(iii) Creditors

The former Council had creditors balances totaling Kshs.16,673,225 as at 28 February 2013 as disclosed in the statement of assets and liabilities made available

for audit review. However, as at 30 June 2013, the figure stood at Kshs.20,749,407. The amounts include salary arrears, statutory deductions and suppliers' invoices. Although the former Council maintained a creditors' ledger, the figures shown in the ledger at times differ with the amounts given in the creditor's listings as illustrated below:

- (i) An engineering company was contracted by the Maua sub county in 2011/2012 to build Kathima tank for community use and completed the works in the same financial year. The creditors ledger indicate that the last payment of Kshs.27,802 was made vide Cheque No.000709 dated 10 August 2012. However, as at 31 December 2012 the creditors ledger showed no outstanding payment due to the company but it was eventually paid Kshs.220,200 on 08 March, 2013 vide Cheque No.000732. The cheque payment was not recorded in the creditor's ledger and it was therefore not possible to confirm authenticity of the payment.
- (ii) The creditors' listing showed outstanding PAYE of Kshs.207,737 as at 31 December, 2012 while the creditors' ledger reflected a balance of Kshs. 491,748 as at the same date, resulting to unreconciled variance of Kshs.283,011.
- (iii) A mechanic who was repairing Council vehicles in the year 2011/2012 was indicated in the creditors listing with amount outstanding against vehicle repairs as at 31 December 2012 of Kshs.164,400, while the creditors' ledger reflected Kshs.189,350 as at the same date. The difference of Kshs.24,950 was not reconciled or explained.
- (iv) The former Ministry of Lands prepared the Council's valuation roll during 2010 but had not been paid. The figure of Kshs.2,000,000 was therefore

brought forward from 2010/2011 but no documents were made available to support the amount due. The creditors balance increased from Kshs.16,653,529 in February 2013 to Kshs.20,749,407 in June 2013 but not circularization of creditors was carried out.

Accuracy and validity of the Creditor's balances could not be confirmed because of the above omissions.

Recommendation

A proper system for recording creditors should be put in place to facilitate efficient management of the records. The creditors inherited from the former Council should be validated to avoid payments being made to fictitious suppliers of goods and services.

3.21 Fixed Assets

Motor Vehicles and Office Equipment

An audit of the motor vehicles and office furniture and subsequent physical verification carried out on 5 and 6 September 2013 revealed that the former Clerk to the Council had not handed over the assets and liabilities to the Transition Authority. The following additional observations were made:-

The Municipal Council owned six motor vehicles valued at Kshs.1,664,000 and their existence was confirmed through the respective logbooks made available for audit. All the vehicles were in good condition. However, the serial numbers indicated against computers and accessories/furniture and equipment were nonexistent although physical count tallied with the listed items. It was therefore not possible to confirm the ownership.

Recommendation

Proper labeling and serialization of computers and accessories/furniture and equipment should be done before the items are handed over for ease of detection of any missing assets.

3.22 Revenue Collections

During the period January to June 2013, the Council collected total revenue of Kshs.23,683,012 and banked Kshs.23,258,002, resulting to an under banking of Kshs.425,010, which had not been accounted for. The revenue collection and banking analysis in respect of Cess and GRF accounts maintained by the Council is as shown below:-

<u>Accounts Particulars</u>	Collection	Banking	Variance
	(Kshs.)	(Kshs.)	(Kshs.)
GRF	12,700,917	12,003,167	697,750
Crop Cess	10,982,095	11,254,835	<u>(272,740)</u>
Net Under Banking			<u>425,010</u>

It was however noted that revenue collections for the month of June were banked into the Sub-County bank account.

Recommendations

All revenue collections should be banked intact as required by financial regulations and procedures.

3.23 Payroll

The former Council was using LAIFOM payroll system and had not started using IPPD payroll. The Council had a workforce of fifty five staff members as at July and December 2012. The number remained the same as at 28 February and 30 June 2013.

Recommendations

The County Government should adopt use of IPPD for proper management of the Sub-County payroll.

3.24 Other Findings

(i) Local Authorities Transfer Fund (LATF)

The former Council received LATF disbursements of Kshs.29,986,019 out of the expected amount of Kshs.35,697,642 from the National Treasury during 2012/2013. The third and last disbursement of Kshs.5,711,623 was not received. Nineteen (19) projects earmarked for implementation during the year were allocated an amount of Kshs.16,691,404. However, funds allocated for the following projects were not utilized for the intended purpose:-

Project Particulars	Amount (Kshs)
Mporomoko Nursery Classroom	- 500,000
Mwiyo Mwomaili road formation	- 200,000
Office renovation and furniture	- 612,604
Purchase of Revenue Vehicle	- 3,000,000
Construction of fruit sheds	- <u>2,693,800</u>
Total	- <u>7,006,404</u>

Out of the above amount, Kshs.2,000,718 was used to pay enhanced staff salaries arising from implementation of Collective Bargaining Agreement (CBA) which increased employees' salaries. An amount of Kshs.2,801,513 was used to pay PAYE and contribution to Pension Fund as shown below:-

Payee		Amount (Kshs)
PAYE	-	914,008.16
LAPRO Fund	-	855,473.65
LAP TRUST	-	<u>1,032,031.80</u>
Total	-	<u>2,801,513.61</u>

There was no evidence that approval for reallocation of funds for payment of salaries was sought and obtained. The remaining amount was used to cater for operational costs factored in the budget.

Recommendations

The County Government should adhere to the rules and regulations governing use of funds budgeted for specific projects or programmes and ensure that no funds are diverted to other uses without necessary prior approval.

Report on the Defunct County Council of Meru Central

3.25 Improper Handing over to the County Government

There was no proper handing over of the former County Council of Meru Central assets and liabilities to the Transition Authority as required by the Ministry of Local Government Circular of February, 2013. The statement of assets and liabilities which was supposed to form part of the handing/taking over report was not signed by Interim County Secretary to signify the official taking over of the assets and liabilities of the defunct Local Authority. The statement prepared did not

set out a debt management strategy as required by the Ministry of Local Government.

Recommendation

The County Government/Transition Authority should ensure that proper a handing over is done without further delay.

3.26 Current Asset and Liabilities

(i) Cash and Bank Balances

The former Council operated seven bank accounts maintained at three different banks and had balances totalling to Kshs.92,602,169.56 as at 28 February 2013 as indicated below:-

Account Particulars		Amount (Kshs.)
Crop Cess - KCB	-	769,393.90
GRF - Consolidated Bank	-	1,020,425.45
Renewals Fund - KCB		-
LATF Account - KCB	-	85,242,093.98
GRF-KCB	-	4,815,731.62
GRF – Revenue – Collection	-	<u>754,525.51</u>
Total	-	<u>92,602,169.56</u>

However, no reason was given as to why these accounts were not closed on expiry of the three months as provided for in the County Governments Public Finance Management Act, 2013 considering that the Council had been dissolved by 28 February 2013.

The funds in the bank accounts were subsequently transferred to County Revenue Account in the month of June 2013 as shown below:

A/C No.	Nature	Bank	Amount ((Kshs)
1104170107	Crop Cess Fund	KCB	767,993.90
1129339017	Renewals Fund	KCB	999,500.00
1103314165	LATF A/C	KCB	41,000,911.00
063000004392	GRF – Revenue	Family	<u>1,612,284.00</u>
TOTAL			<u>44,380,688.90</u>

The former Council did not conduct a board of survey at the time of transferring the funds to the Sub County Revenue Account to ascertain the correct cash and bank balances. Also, bank reconciliation statements prepared were not accurate as the former Council did not maintain updated main cashbook. Separate receipt and payments cashbooks maintained were not totaled and balanced daily as the financial regulations require. Consequently, accuracy of cash and bank balances could not be confirmed.

Recommendation

Proper cashbooks should be maintained, correct bank reconciliations prepared and accuracy and completeness of the records confirmed by a senior official.

(ii) Debtors Balances

The defunct County Council of Meru Central debtors’ balance was Kshs.18,850,000 as at 28 February 2013 but the figure did not include property rates whose records were not updated as at the time of audit on 28 August 2013.

Also, the defunct Council had not prepared a complete list of debtors' schedules as at 30 June 2013, and therefore debtors' position did not change from Kshs.18,850,000 reported in February 2013. However, out of the balance, Kshs.14,743,000 relates to long outstanding property rent as shown below:-

Name of Tenant	Outstanding Rent (Kshs)
Meru County Hotel	10,346,000
Kenya Methodist University	<u>4,397,000</u>
Total	<u>14,743,000</u>

Scrutiny of lease agreements signed between the former Council (landlord) and the tenants disclosed the following:-

- (a) According to Lease Agreement for Meru County Hotel signed on 20 June 2011, rent payable to the landlord was indicated as Kshs.575,000 per month from the date of signing the Lease Agreement. However, the lessee has been paying monthly rent of Kshs.325,000 instead of Kshs.575,000. The under payment of rent by Kshs.250,000 had led to an accumulation of rent arrears totaling to Kshs.10,346,000.
- (b) The defunct Council entered into a Lease Agreement with Kenya Methodist University to occupy Meru Municipality property Block T/66B at a cost of Kshs.180,000 per a month. The Lease Agreement was not made available for audit review to confirm the terms of the agreement. However, available records indicated that the University owed the defunct Council accumulated rent arrears totaling Kshs.4,397,000.

Recommendation

The County Government should update the debtor's records and ensure that valid debtors' listings are maintained and the debts collected.

(iii) Creditors

The Council's creditor's balance totalled Kshs.14,097,512 and Kshs.51,484,630 as at 28 February and 30 June 2013 respectively. However, the Council did not maintain a creditors' ledger for the period January to June 2013 but only provided creditors' listing and some few invoices. Creditors' circularization was also not carried out to validate the outstanding balances.

3.27 Fixed Assets

Motor Vehicle and Office Equipment

An audit verification exercise carried out at the defunct Meru Central County Council offices on 19 September 2013 revealed that the former Clerk had not handed over the assets to the Transition Authority. Physical verification of Motor Vehicles, Computers and Accessories/Furniture and Equipment revealed the following:

- (i) The Council had a total of twenty (20) motor vehicles out of which ten (10) were grounded and two (2) were in garages. Only eight (8) vehicles were noted to be in good condition. The vehicles were all registered in the name of Meru Central County Council and the ones in good condition were being used for official duties. The motor vehicles were valued at Kshs.10,224,333 as at 28 February 2013.
- (ii) The former Council had several equipment and furniture. The serial numbers indicated against computers and accessories/furniture and

equipment listings were nonexistent and it was not possible to establish the authenticity and ownership of the assets.

- (iii) Computers/accessories and furniture and equipment's valued at Kshs.2,719,340 were verified but some were not seen and their whereabouts could not be established.

Recommendation

- (i) ***Labeling and serialization of computers and accessories/furniture and equipment should be done.***
- (ii) ***The assets should be properly recorded and security ensured.***

3.28 Revenue Collections

During the period January to June 2013, the former Council collected revenue totaling Kshs.21,215,166.00 compared to Kshs.44,677,406 collected between January to June 2012, a decrease of 52.3%. No satisfactory explanation was given for the significant decrease in revenue collection. Further, revenue collection was being used before banking as evidenced in the following analysis:-

(Month)	Amount Collected	Amount Banked	Variance	
	Kshs.	Kshs.	Under Banking	Over Banking
January	3,274,610	1,531,767	1,742,843	
February	4,392,987	4,818,470	-	425,483
March	3,638,527	1,925,009	1,713,528	-
April	3,288,287	1,882,706	1,405,581	-
May	2,133,559	1,659,097	474,462	
June	<u>3,571,846</u>	<u>1,056,398</u>	<u>2,515,448</u>	<u>-</u>
Total	<u>20,299,816</u>	<u>12,873,447</u>	<u>7,851,862</u>	<u>425,483</u>

The net under banking of Kshs.7,426,379 had not been accounted for or explained as at the time of audit in September, 2013.

Recommendation

The County Government should ensure that all revenue collected is promptly recorded and banked intact. The underbankings should be investigated to confirm how the money was accounted for.

3.29 Personnel Expenses

The defunct County Council employed twenty-two (22) members of staff in September 2012. The employment did not fully comply with the regulations as the approved estimate for 2012/2013 and an approval letter Ref MLG 1308-84/111/33 of 17/7/2012 from the Ministry of Local Government, indicated that eighteen (18) persons were to be employed. However, no advertisement was done as none was made available for audit scrutiny. Also, no interviews appear to have been conducted to identify suitable candidates as no minutes were made available for audit review. Analysis of the staff authorized for recruitment and those hired is as follows:-

Designation	Salary Scale	Authorized	Hired	Variance
Administration office	10	2	2	
Drivers	17	3	2	-1
Revenue officers	15	13	18	+ 5
Total	18	22	4	

No explanation was given for hiring four more staff in excess of the approved and authorized number.

Recommendation

The County Government should investigate the circumstances under which the former Council employed staff in excess of the authorised number.

3.30 Procurement of Goods and Services

(i) Consultancy Services

A survey firm was hired by the Council to survey land in the various divisions but it was not possible to establish when the firm was contracted as no contract documents were made available for audit review. A demand letter from the consultancy firm indicated a balance of Kshs.1,400,000, while the Council listing provided for audit indicated a balance of Kshs.1,511,519, leading to unexplained difference of Kshs.111,519. The services were indicated rendered between the year 2004 and 2011 and the invoice was dated 4 May 2012. Authenticity of the claim could not be confirmed.

Also, another land Consultant was reflected with outstanding balance of Kshs.2,132,210 according to the list of creditors, although it had submitted a demand note of Kshs.3,069,350, resulting to unexplained difference of Kshs.937,140. According to Tender No.CC of M.C 5/2011/2012, provision for land surveying services, only one firm tendered to render the above services which made the tender committee resolve to re-advertise. However, the consulting firm under reference was not mentioned in the minutes of the tender, evaluation & award committee meetings held at the Deputy Treasurer's office on 29 March 2011

at 11.30 am. No evidence was made available indicating that new bids were flouted, therefore, raising doubt on how the firm was identified to provide consultancy services to the Council.

(ii) Irregular Procurement of Tyres

Payment Voucher Nos.1304-0106 and 1304-0105 both dated 30 April 2013 for Kshs.216,000 and Kshs.72,000 respectively were paid vide Cheques No.7598 and 7596 for supply of 6 pcs 1100x20 roadside tyres for vehicles KAB 216Q and 4pcs 750x16 for KUH 692 respectively. The tyres were supplied vide Delivery Note Numbers 84 and 86 dated 30 April and 7 May 2013 respectively. The respective unserialised demand notes were raised on 5 May and 7 May 2013 respectively. However, the following anomalies were noted:

No competitive bids were invited as there was no pre-qualified suppliers of tyres. According to minutes of the tender evaluation & award committee meeting held on 29 March 2011, Tender No. C.C of M.C 9/2011/2012, only a single tenderer submitted tender documents and it was unanimously agreed that fresh bids be flouted. Although the tyres were paid for, no Local Purchase Order appears to have been issued for the supply of goods and no evidence was availed to confirm that the tyres were fitted into the above vehicles, or received in the Council stores. The propriety of expenditure totaling Kshs.288,000 could not be confirmed.

Recommendation

The Procurement Law should be adhered to during procurement of goods and services, and L.P.O.s/L.SO.s should be used while ordering for goods and services.

(iii) Irregular Motor Vehicle Repairs

Examination of payment vouchers revealed that an expenditure of Kshs.321,300 was incurred on various dates in February and May 2013 for repair of the former County Council vehicles without following laid down procurement procedures. The repairs were done without Local Service orders being issued, repairs not entered in the logbooks and no pre and post repairs inspection reports were seen.

3.31 Other Findings

(i) Repair of Motor Vehicle

A mechanic who allegedly repaired the Council's tractor in 2006 and 2007 provided invoices totalling to Kshs.2,882,600, while creditors' listing shows Kshs. 2,200,000, leading to unexplained difference of Kshs.682,000. The list of the invoices indicated that the bills dated between November, 2006 and February 2007 as shown below:-

Date	Invoice No	Amount (Kshs.)
3/11/2006	101	120,176
22/11/2006	00752	297,888
14/11/2006	00750	281,068
27/11/2006	00753	258,912
27/4/2006	00760	406,000
13/12/2006	00756	282,228

28/12/2006	00757	229,680
4/12/2006	00755	255,200
10/1/2007	00758	361,920
14/2/2007	00759	<u>389,528</u>
TOTAL		<u>2,882,600</u>

Validity of the long outstanding payments could not be confirmed.

(ii) Supply of Hardware Materials

A firm supplied the Council with hardware materials worth Kshs.3,369,046 according to creditors' listing provided for audit. However, no invoices were provided to confirm the dates of supply and the quantity supplied.

(iii) Supply of Fuel

According to the creditors list provided for audit, Kshs.550,000 worth of fuel was supplied to the former Council. However, no invoices were made available to confirm when the fuel was supplied and therefore the outstanding amount cannot be confirmed.

(iv) Casual Labours

Two casual watchmen were indicated owed a total of Kshs.1,500,000 arising from an engagement between 1996 to 2007 when they worked for 365 days without off-duty and including public holidays and weekends as evidenced by the muster rolls made available for audit scrutiny. Although the matter was tabled, discussed and approved by the Finance and General Purpose Committee as per Minutes No FS&G.P.C.16/2008, no efforts appear to have been made by the former Council to pay the casuals who worked for all these hours.

(v) Irregular Expenditure on Travel and Accommodation

Examination of payment vouchers revealed that payments totaling Kshs.150,000 were made to certain officers between the months of February to April 2013 without any supporting documents to ascertain that the officers travelled to the indicated destinations and qualified for night out allowances. The amounts were also indicated as paid to the payment cashier as the payee.

Recommendation

The County Government should ensure that all payment vouchers are properly supported before any payment is made.

(vi) Irregular Payment of Tea Allowances

Examination of payment vouchers revealed that a total of Kshs.65,000 was spent in payment of allowances for 10 o'clock tea and water to various individuals instead of the Council providing tea.

It was not clear why these payments were made to particular officers as no Government Financial Regulations and Procedures or Council resolutions allow such payments.

Recommendation

The County Government should recover the amount paid to the officers and ensure that financial regulations and procedures are adhered to.

(vii) Payment of Lunch Allowances, Beautification and Repairs of Chamber Seats

Expenditure totaling to Kshs.244,750 was incurred by the Council in payment of lunch allowances to officers based at the County headquarter offices. The payments were made in April and May, 2013 to individuals for purported works and repairs carried out in readiness for the swearing in ceremony of the County Representatives but without supporting documentation. As a result, propriety and authenticity of the expenditure could not be established.

Recommendation

All payments should have appropriate supporting documents and expenditure should be incurred in accordance with the existing financial regulations and procedures.

(viii) Nkubu Stores

According to the creditors list provided for audit, the firm was owed Kshs.65,540 but no invoices were provided to show what was supplied and when.

Recommendation

The County Government should ensure that verification of creditors is carried out before any payment is made and that a creditor's ledger is maintained and updated on regular basis.

(ix) Irregular Payment for Goods and Services

The County Government/defunct County Council paid a Survey firm Kshs.681,225 in respect of survey fees of Timau Township. The payment was made vide

payment voucher no.1305-0042 dated 15 May 2013 vide cheque no. 103954. However, contrary to the Public Procurement Regulations, the following anomalies were noted:-


No quotations were flouted before the contract was awarded and executed. According to Minute No. C.C of M.C 5/2011/2012, provision for land surveying services of the tender evaluation & award committee meeting held on 29 March 2011, only one firm tendered to render the above services which made the tender committee call for fresh quotations. No evidence was availed to show that new bids were flouted. Also, no County Council minutes were availed on the deliberations before survey works was awarded and executed. In addition, no Local Service Order was issued for the execution of the services and no report was submitted for the surveyed plots. Further, no contract agreement was entered between the County Council and the Surveyor. The payment of Kshs.681,225 remains irregular since the services were procured contrary to the existing law.

Recommendation

The County Government should ensure that procurement law and regulations are adhered to during procurement of goods and services.

3.32 Conclusion

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

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

Edward R. O. Ouko, CBS
AUDITOR-GENERAL

10 January 2014