

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

REPORT

OF

THE AUDITOR–GENERAL

ON THE

FINANCIAL OPERATIONS

OF

THE COUNTY GOVERNMENT OF
NAKURU AND ITS
DEFUNCT LOCAL AUTHORITIES

FOR THE PERIOD
I JANUARY TO 30 JUNE 2013

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

1.0 EXECUTIVE SUMMARY

Introduction

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) revealed the Local Government Act, Cap 265, and thus effectively dissolving all the 175 Local Authorities and creating 47 County Governments.

According to Transition to Devolved Governments Act, 2012, after the general election on 4 March 2013, the functions, assets, liabilities and staff of the former Local Authorities were to be taken over by the County Governments. The purpose of the special audit exercise was to ensure existence of a seamless transition process and proper systems for accountability of public resources before, during and after transition to County Governments.

This report covers operations of the County Government of Nakuru comprising the County Government Executive, the County Assembly and the three (3) defunct Local Authorities namely:

- Nakuru Municipal Council
- Nakuru County Council, and
- Naivasha Municipal Council.

1.1 Audit Objectives

The audit covered the County Government of Nakuru and the defunct Local Authorities transactions for the period 1 January to 30 June, 2013 and took into account transactions before, during and after the transition period. The objective of the audit was to verify the County Government's preparedness to receive and utilize devolved funds 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 Authority
- Cash and bank balances
- Current debtors and suppliers balances
- Motor vehicles and office equipment
- Recurrent and development expenditure items
- Procurement and procurement procedures

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

1.3 KEY AUDIT FINDINGS

1.3.1 Nakuru County Government Executive

1.3.1.1 Failure to Take Over The Defunct Local Authorities

The County Government of Nakuru had not officially taken over the assets and liabilities of the former Municipal Council of Nakuru, former County Council of Nakuru and the former Municipal Council of Naivasha at the time of the audit, contrary to instructions issued by the Ministry of Local Government vide Circular No. MLG/1333/TY/52 of 18 February, 2013. It was therefore, not possible to establish the completeness of the assets and liabilities handed over to the County Government.

1.3.1.2 Utilization of Allocated Funds – Kshs.367,286,765.00

During the period under audit, the County Government of Nakuru was allocated Kshs.367,291,765.00 by the National Treasury for its operations. Out of this allocation, Kshs.102,126,434.00 was transferred to Nakuru County Assembly and Kshs.196,676,657.15 utilized by the County Executive for its operations, representing an absorption rate of 81% of the funding. The Balance of Kshs.68,483,673.85 was returned to the National Treasury.

The County Government should endeavour to utilize all funds allocated as per the budget.

1.3.1.3 Failure to Maintain a Fixed Assets Register

The County Government did not maintain an assets register. There is risk of loss, misuse, pilferage and misappropriation of the assets.

1.3.1.4 Purchase of ICT Equipment – Kshs. 8,662,964.00

The County Government purchased various ICT items at a cost of Kshs. 8,662,964.00. However, they were not recorded in the stock control records contrary to Section 153(1) (b) of the Public Finance Management Act 2012.

1.3.1.5 Unaccounted for Fuel – Kshs.5,062,973.00

The County Government purchased 34,399 litres of diesel and 14,660 litres of petrol at a total cost of Kshs. 5,062,973.00. However, the County did not maintain a bulk fuel register, detailed fuels orders were not dated and the relevant motor vehicle work tickets were not availed for audit verification. Therefore, the propriety of the expenditure could not be confirmed.

1.3.1.6 Unrecorded Purchase of Motor Vehicle Spare Parts - Kshs. 2,343,292.00

The County Government purchased various motor vehicles spare parts and tyres at a cost of Kshs. 2,343,292.00 for repairs and maintenance. However, the items were not taken on charge in the stores and log books were not maintained to record repairs and maintenance works carried out on vehicles. Therefore, the propriety of the expenditure could not be confirmed.

1.3.2 Nakuru County Assembly

1.3.2.1 Irregular Contract Payments-Kshs.28,999,926.34

A construction company Construction Co Ltd was awarded a contract to refurbish the County Assembly offices, the parking bays, and to supply furniture at a total cost of Kshs.28,999,926.34. However, the contractor was paid the full contract sum before completing the works and delivering furniture, contrary to the provisions of the Public Procurement and Disposal Act which requires goods and services be inspected by the Inspection and Acceptance Committee before payment. In the absence of a completion certificate, it was not possible to confirm whether the County Assembly got value for money.

1.3.2.2 Payment for Uncertified Civil Works – Kshs.1,861,200.00

The County Assembly awarded a contract to a firm to undertake landscaping at the County Assembly premises at a cost of Kshs.1,861,200.00. However, the contractor was paid in full on 28 June 2013 before the work was completed. In the absence of a completion certificate, it was not possible to confirm whether the County Assembly got value for money.

1.3.2.3 Irregular Accounting System for Issuing Imprests–Kshs.347,503.00

The County Assembly records showed that various staff were issued with imprests without imprest warrants. The money was paid using payment vouchers and expensed through the cashbook before confirmation of expenditure. It was therefore not possible to confirm the propriety of this expenditure.

1.3.2.4 Irregular Payment of Night-Out Allowance – Kshs.320,000.00.

Twenty (20) Members of Nakuru County Assembly (MCA's) were paid night out allowances totaling to Kshs.320,000.00 while attending a workshop organized by the Youth Agenda for elected/nominated youth leaders under the age of 35 years. However, their accommodation and transport was provided by the organizers. Further, there was no evidence that the twenty (20) members met the 35-years age limit criteria. Therefore, the propriety of the expenditure could not be confirmed.

1.3.2.5 Irregular Procurement of Stores- Kshs. 2,781,780.00

The County Assembly procured items such as uniforms, furniture and business cards at a total cost of Kshs.2,781,780.00 without competitive bidding as required by Section 29(1) of the Public Procurement and Disposal Act, 2005. Further, the items were not entered in the stores records. In the absence of competitive bidding, it was not possible to ascertain that the County Assembly got value for money.

1.3.2.6 Weak Controls in Asset Register Maintenance

Although the County Assembly kept a fixed assets register, it was not updated and entries were made in pencil.

The County Government should identify, take stock and tag all assets. The register should be updated regularly.

1.3.3 The Defunct Municipal Council of Nakuru

1.3.3.1 Cash and Bank Balances

The defunct Municipal council operated ten (10) bank accounts before, during and after the transition.

The following shortcomings were noted:-

1.3.3.2 Failure to close bank accounts

The bank accounts of the defunct Municipal Council of Nakuru remained in operation after 28 February, 2013, the deadline set by the Transition Authority for the closure of those accounts. The accounts were eventually closed on 27 June, 2013. Failure to close the bank accounts implied that transactions, including expenditure continued to take place in these accounts contrary to the instructions of the Transition Authority.

1.3.3.3 Failure to prepare Bank Reconciliation Statements

The Council did not prepare bank reconciliation statements for nine (9) accounts as required under paragraph F and J of the Local Authorities Financial Management Regulations, 2007. The Council only availed reconciliation statements for the LATF account No. 0100-220-319-300. It was therefore not possible to confirm the cash and bank balances as at the date of closure of the accounts.

1.3.3.4 Unauthorised Bank Overdrafts

Bank accounts Nos. 01800 -0001 -279 and 01800-002-4420, which were maintained at Family Bank, had debit balances of Kshs 42,107,740.22 and 30,059,934.65 respectively as at 30 June 2013. No evidence was availed to show that relevant authority was sought and granted in respect of the overdrafts as required by section 225(1) of the Local Government Act.

1.3.3.5 Long Outstanding Imprests – Kshs 2,585,688.00

Examination of records at the defunct Nakuru Municipal Council indicated that there were long outstanding imprests totaling Kshs 2,585,688.00 as at 30 June 2013, contrary to section G(2)(c) of the Local Authority Financial Management Regulations 2007. Further, out of that amount, Kshs 1,544,651.00 was not supported by imprest warrants, contrary to clause 3.7.2 (vii) of the Local Authority Treasurers' Manual.

1.3.3.6 Outstanding Property Rates- Kshs.1,984,989,766.00

The Municipal Council of Nakuru had outstanding property rates debtors of Kshs.1,984,989,766.00 as at 30 June 2013 while the estate rent debtors stood at Kshs.223,274,097.00. No age analysis of the debts was prepared to establish the period over which the arrears had accrued. The recoverability of the debtors was in doubt.

1.3.3.7 Unconfirmed Creditors Balances – Kshs.619,187,050.00

The Council did not maintain a creditors ledger. However, information available showed that the outstanding liabilities of the Council amounted to Kshs.619,187,050.00 as at 30 June 2013. In the absence of a creditors register, the accuracy of the creditors balance could not be confirmed.

1.3.3.8 Unauthorised re-allocation of LATF Cash – Kshs.170,683,643.00

On 5 March 2013 the Council received Kshs.170,683,643.00 from the Local Authority Transfer Fund (LATF), against an approved budget of Kshs.185,599,411.00 to implement twenty five (25) projects. However, available information indicates that the funds were re-allocated to meet recurrent expenditure, contrary to LATF Act No. 8 of 1988.

1.3.3.9 Non-Disposal of Grounded Vehicles

Documents availed for audit indicated that the Municipal Council of Nakuru had a total of forty three (43) motor vehicles, tractors and trailers which were grounded due to various mechanical defects. The assets had been recommended for disposal in the year 2012 after inspection. There is a risk of loss of value as a result of vandalism and weathering.

1.3.4 The Defunct County Council of Nakuru

1.3.4.1 Cash at bank

The defunct County Council of Nakuru operated ten (10) bank accounts. However, the Council did not provide bank statements and bank certificates to confirm balances which were transferred to the County Government of Nakuru. Further, the Council did not prepare bank reconciliation statements for nine (9) bank accounts as stipulated under paragraph F and J of the Local Authorities Financial Management Regulations, 2007. In addition, the accounts were not closed on 28 February 2013 as directed by the Transitional Authority.

1.3.4.2 Cash Shortages from Revenue Collectors - Kshs 1,831,749.00

Records held by the Council indicated that there was a revenue collection shortage of Ksh.1,831,749.00 from various stations. The revenue collectors did not remit the money to the main cashiers and did not fully account for receipt books that had been issued to them.

1.3.4.3 Unconfirmed Debtors' Balance

Information available showed the County Council had debtors totaling Kshs.1,363,207,943.85 as at 30 June 2013 which included property rate debtors of Kshs 1,029,233,184. However, the council did not maintain a debtors register. In the absence of a debtors register, the accuracy of the debtors balance could not be confirmed.

1.3.4.4 Failure to Maintain a Creditors' Ledger

The former Council did not maintain a creditors ledger. The list of creditors' availed for audit indicated that as at 30th June, 2013, the Council owed general merchants and statutory bodies a total of Kshs.172,634,251.85 and three legal firms a total of Kshs.8,466,125. The former Council did not provide any documentation such as Local Purchase Orders, Delivery Notes, Invoices and fee notes to support the balance. In the absence of the supporting documents, it was not possible to confirm the creditors balance.

1.3.4.5 Human Resource

A review of the payroll for the period covering January to June 2013 revealed payment of salaries of Kshs.754,230.00 to six officers who had been allegedly transferred from other Local Authorities. The authenticity of the payments could not be confirmed as the particular officers could not be identified. Further, the county council engaged casual workers and paid a total of Kshs 5,060,060.00 without seeking authority in contravention of Ministerial circular number 2/2004 dated 28 April 2004 and circular Ref. 1384/T4/37 of July, 2006.

1.3.4.6 Failure to Maintain an Assets Register

The County Council did not maintain an assets register contrary to paragraph M (2) of the Local Authority Financial Management Regulations of 2007. It was therefore not possible to confirm the existence of the council assets.

1.3.5 The Defunct Municipal Council of Naivasha

1.3.5.1 Bank Accounts Balances

The Naivasha Municipal Council operated eight bank accounts but did not maintain a register of the bank accounts. It was not possible to confirm that the eight (8) accounts that were examined represented all the bank accounts the council held. Further, the accounts remained in operation up to 27 June 2013 on the advice of the Principal Finance Officer, contrary to Transition Authority directive issued vide circular ref. no. TA/7/5/(20) dated 12 February 2013.

1.3.5.2 Unaccounted for Imprests – Kshs.736,887.00

The Municipal Council had outstanding imprests of Kshs.736,887.00 as at 30 June 2013. However, there was no evidence that imprests warrants were issued. In the absence of the warrants it was not possible to establish the purpose for which the imprests were issued or to confirm the authenticity of the imprests surrenders.

1.3.5.3 Non - Collection of Cess Revenue - Kshs. 5,931,650.00

The defunct Council failed to collect Kshs. 5,931,650.00 from a group of flower farmers called Lake Naivasha Growers Group (LNGG) who were to pay cess at the rate of 1% of gross sales of the flowers.

1.3.5.4 Irregular Expenditure on Temporary/Casual Staff Employment

Between January to June 2013, the Municipal Council incurred an expenditure of Kshs.1,740,120.00 on payment to casual/temporary staff, contrary to the Ministerial Circular No. 2 /2004 of 28 April, 2004 and Circular No. Ref: 1384/74/37 dated 18 July, 2006. In the circumstances, the propriety of the expenditure could not be confirmed.

1.3.5.5 Stationery not taken on Charge

The Council procured stationery costing Kshs.1,944,750.00. However, the goods were not recorded in the stores ledger but were instead issued directly to user departments who did not maintain records of what they received.

1.3.5.6 Debtors

The defunct Municipal Council of Naivasha was owed Kshs.189,159,569.00 in account receivables as at 30 June 2013 up from Kshs.181,112,603.00 at the start of the year. It appears the Council's ability to realize the debts in full is doubtful.

1.3.5.7 Unconfirmed Creditors Balance – Kshs. 91,441,990.00

Records available indicated that that the Council had outstanding liabilities totaling Kshs.91,441,990.00 as at 30 June 2013 comprising of salary arrears of Kshs.27,388,234.00 and the Local Authorities Pension Trust (Lap Trust) Fund remittances of Kshs.64,053,756.00. However, correspondences between LAPTRUST Fund and the Council indicated that the balance was disputed. The matter had not been resolved by the time of audit.

1.3.5.8 Unimplemented LATF Projects - Kshs 10,500,000.00

Between December 2012 and February 2013, the Council received LATF cash totaling Kshs.85,034,292.00. Although, the Council had budgeted to implement projects costing Kshs.47,100,000.00, projects worth Kshs.10,500,00.00 had not been implemented as at 30 June 2013.

1.4 Conclusion

From the foregoing audit findings, it is clear that the process of taking over of assets and liabilities of the defunct local authorities was not properly planned and organized. According to Transition to Devolved Governments Act, 2012, it was the responsibility of the Transition Authority to oversee the takeover of the functions, assets, liabilities and staff of the former Local Authorities by the County Governments after the March 4, 2013 general elections.

Similarly, according to Section 194 of the Public Finance Management Act, 2012, the Public Sector Accounting Standards Board is charged with the mandate of developing model accounting and reporting systems for the National Treasury which shall be adopted by the County Government in order to ensure standards are applicable across the County Governments. This had not been done. In spite of these challenges, the County Governments should take control of functions, including revenue collection, recording and proper accounting for the same.

The detailed audit findings are contained in the main audit report herewith appended.

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

Edward R.O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

3 November 2014

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

1.2 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 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.

2.0 KEY AUDIT FINDINGS

2.1 Nakuru County Government Executive

2.1.1 The taking- over of the former Local Authority

The County Government of Nakuru had not officially taken over the assets and liabilities of the former Municipal Council of Nakuru, former County Council of Nakuru and the former Municipal Council of Naivasha at the time of the audit contrary to instructions issued by the Transition Authority in the circular reference TA/7/5/ (20) of 12 February, 2013. It was therefore, not possible to establish the completeness of the assets and liabilities handed over to the County Government.

Recommendations

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

2.1.2 Utilization of Allocated Funds – Kshs. 367,286,765.00

During the period under audit, the County Government of Nakuru was allocated Kshs.367,286,765.00 by the National Government for its operations between the period 1st March, to 30th June 2013. The funds were received in four tranches.

Out of the allocation of Kshs. 367,286,765.00, the County Government transferred an amount of Kshs.102,126,434.00 to the Nakuru County Assembly and spent Kshs.196,676,657.15. The amount remitted to the County Assembly and the expenditure incurred represented an absorption rate of 81% of the funding. The Balance of Kshs. 68,483,673.85 was returned to the National Treasury on 9th July 2013 through transaction 0640373101-RTGS-NAK R C GOVT REV A/C. Failure to absorb funds indicates that some programmes planned were not implemented.

Recomedations

The County Government should endeavour to utilize funds as budgeted.

2.1.3 Failure to Maintain a Fixed Assets Register.

As at the time of audit in August 2013, the Nakuru County Government did not have a fixed assets register in place. Without the register it may not be possible to confirm the custody, movement and condition of assets.

Recomedations

The County Government should identify, take stock and tag all assets. A register should be opened and updated regularly.

2.1.4 Unrecorded Purchase of ICT Equipment – Kshs. 8,662,964.00

An examination of the stores ledger maintained at the Central Stores revealed that the County Government purchased various ICT equipment at a cost of Kshs. 8,662,964.00 in the month of June 2013. However, the items which included laptops, desktop computers and digital photocopiers had not been recorded and taken on charge but had been issued to the user sections. Failure to record the items may lead to loss or misappropriation.

Recomedations

All purchased goods should be taken on charge before they are disbursed to the end users.

2.1.5 Unaccounted for Fuel – Kshs. 5,062,973.00

An examination of payment vouchers on fuel expenditure for the period March to June 2013 revealed that Nakuru County Government purchased 34,399 litres of diesel and 14,660 litres of petrol at a total cost of Kshs.5,062,973.00. However, the County did

not maintain a bulk fuel register and the fuel was not taken on charge. Although detail orders showing the registration numbers of vehicles were used to draw fuel, the respective work tickets were not availed for audit verification. Under the circumstances, it was not possible to confirm that the the fuel was received and used by the County Government.

Recommendations

All fuel purchased should be entered in the bulk fuel register and detailed orders should be completed with all the details and Work Tickets should indicate the amount of fuel drawn.

2.1.6 Unrecorded Purchase of Motor Vehicle Spare Parts - Kshs. 2,343,292.00

The County Government purchased motor vehicles spare parts and tyres at a cost of Kshs.2,343,292.00 for repairs and maintenance. However, the items were not taken on charge and the County Government did not maintain log books to record repairs and maintenance works carried out on vehicles as a control mechanism.

Recommendations

Each motor vehicle should have a log book to keep track of repairs and maintenabce for accountability purposes. All goods purchased should be taken on charge in the stores records.

2.2 Nakuru County Assembly

2.2.1 Irregular Contract Payments

Documents held at Nakuru County Assembly indicated that a local construction firm was awarded a contract to refurbish the County Assembly offices, the parking bays, and to supply furniture at a total cost of Kshs.28,999,926.34. The firm was the lowest bidder out of nine contractors who had submitted quotations in a restricted tendering process. As at the time of audit on 21 August, 2013, the contractor was still working at site but had been paid the full amount.

A scrutiny of the Bill of Quantities (BQs) showed that the County Assembly had indicated the price of furniture to be supplied, cost of mechanical installation and the cost of construction of the parking bay rather than allow the bidders to quote independently. Further, the specifications of the furniture, mechanical installation and the parking bay were not given in the BQs.

Under the circumstances, the payment the Kshs.10,199,992.65 was irregular and it is doubtful if the County Assembly got value for that expenditure.

Recommendations

The County Assembly should adhere to the requirements of the Public Procurement and Disposal Act in order to get value for money spent.

2.2.2 Payment for Uncertified Civil Works – Kshs.1,861,200.00

Records availed for audit showed that a firm, was awarded a contract to landscape the premises of the County Assembly at a cost of Kshs.1,861,200.00. The firm was the lowest bidder out of three that were invited to quote for the civil works which included removal of black soil, planting flowers and grass and leveling the assembly ground. The County Government made full payment in four installments in the month of June, 2013. However, no certificates were issued to confirm work done. Further, when physical verification done on 21 August 2013 indicated that the work was ongoing. It has not been explained why the County Government made payment before the works were completed.

Recommendation

The County Assembly should comply with the requirements of the Public Procurement and Disposal Act, 2005 by paying on the strength of completion certificates.

2.2.3 Irregular Accounting System for Issuing Imprests – Kshs. 347,503.00

An examination of the County Assembly records revealed that cash totaling Kshs.347,503.00 was given to various officers to undertake activities such as travelling on duty or to purchase items. However, the cash was given using payment vouchers which were subsequently posted to the cashbook. It was not possible to confirm whether the imprest issued was used for the intended purpose since the officers did not account for it after completion of the purpose for which the imprest was issued.

Recommendations

The County Assembly comply with Government Financial Regulations and Procedures on managing imprests.

2.2.4 Irregular Payment of Night-Out Allowance – Kshs.320,000.00.

Twenty (20) Members of Nakuru County Assembly (MCA's) were paid night out allowances totaling to Kshs.320,000.00 while attending a workshop at the Kenyatta International Conference Centre (KICC) in Nairobi hosted by the Youth Agenda. Although the allowance was paid to facilitate their accommodation and subsistence, the invitation letter from the organizers had indicated that accommodation and transport would be provided for participants based outside Nairobi. Therefore, the allowance paid in this respect was irregular.

Recommendations

The County Assembly should ensure that Government Financial Regulations and Procedures governing issuance of subsistence allowances are followed at all times.

2.2.5 Irregular Procurement of Stores - Kshs.2,781,780.00

During the period under review, the County Assembly procured items such as uniforms, furniture and business cards at a total amount of Kshs.2,781,780.00. No evidence was provided to show that they were procured competitively as required by Section 29(1)

of the Public Procurement and Disposal Act, 2005 which provides that for each procurement, the entity will use open tender or an alternative procedure stipulated under Part VI of the Act. Further, the items were not entered in the stores records. It was therefore not possible to confirm that the County Assembly obtained value for the money on this procurement.

Recommendations

The County Assembly should follow the Public Procurement and Disposal Act. All items procured should be taken on charge before being issued to the users.

2.2.6 Weak Controls in Asset Register Maintenance

The audit of the motor vehicles and office equipment revealed that although an asset register was maintained, its did not have adequate controls. Some entries had been made in pencil and details such as serial numbers, chassis numbers, cost and registration numbers were not completed.

Recommendations

The County Assembly should identify, take stock and tag all assets. The Assembly should maintain a detailed assets register which should be updated regularly.

2.3 The Defunct Municipal Council of Nakuru

2.3.1 Cash and Bank Balances

The defunct Municipal Council of Nakuru operated several bank accounts during the period under audit which had the following balances as per the respective bank certificates dated 30 June, 2013.

	Bank	Account Name	Account No.	Bank Balance as at 30.6.2013 (Kshs)
1	National Bank of Kenya	Provident	0100-220-329-100	1,481,132.97 DR
2	National Bank of Kenya	L.A.T.F	0100-220-319-300	60,845,206.00 CR
3	Family Bank	L.A.R.M	01800-002-4418	171,335.26 CR
4	Kenya Commercial Bank	Mayor's X-Mass Tree	1101-844-663	82,950.00 CR
5	Family Bank	Bishop Eddie Long	018000-026-150	5,627,859.20 CR
6	Family Bank	Salary Account	01800 -0001 -279	42,107,740.22 DR
7	Family Bank	General Fund	01800-002-4420	30,059,934.65 DR
8	National Bank	North South	0100-220-627-500	59,448.05 CR

9	National Bank	R.O.S.A	0100-220-707-600	3,535.40 CR
10	National Bank	Kazi Kwa Vijana	0100-226-964-600	526,154.05 CR

The bank accounts remained in operation up to 27 June, 2013 on the advice of the Principal Finance Officer of Nakuru County Government issued vide a circular Ref: NKU C/G/POF/BANKS/WM dated 10 April, 2013. The officer, vide circulars Ref. NKR.C/Finance/Vol. 2 of 27.6.2013, further advised banks to let the accounts remain dormant for six months after 27 June, 2013.

2.3.2 Non-preparation of Bank Reconciliation Statements

The Municipal Council of Nakuru did not prepare bank reconciliation statements for nine (9) bank accounts. In the absence of bank reconciliation statements, it was not possible to confirm the cash and bank account balances.

2.3.3 Long Outstanding Imprests – Kshs.2,585,688.00

Records held at the defunct Nakuru Municipal Council indicated that as at 30 June 2013, various officers had not accounted for imprests totaling Kshs 2,585,688.00. According to statements generated from the Local Authority Integrated Financial Operations Management System (LAIFOMS) the imprests had remained outstanding for long, with some dating as far back as July, 2012. Further, out of the imprest amount, only Kshs 1,041,037.00 was supported by imprest warrants, leaving a balance of Kshs 1,544,651.00 as unsupported. In the absence of warrants, it was not possible to confirm the purpose for which the imprests were issued.

Recommendations

Outstanding imprests should be surrendered or accounted for. All imprests issued should be supported with imprests warrants.

2.3.4 Outstanding Property Rates- Kshs.1,984,989,766.00

Records held at the Municipal Council of Nakuru revealed that the Council had outstanding property rates amounting to Kshs.1,984,989,766.00 as at 30 June 2013. This amount comprised rate arrears of Kshs.715,961,823.00, accumulated penalties of Kshs.1,056,266,497.00, ground rent arrears Kshs.298,147.00, annual rates of Kshs.212,433,360 and annual ground rent of Kshs.29,939.00.

The documents did not indicate the period over which the rates arrears and the penalties had accrued.

2.3.5 Estate Rent Arrears – Kshs. 223,274,097.60

The Council had outstanding Estate rent arrears amounting to Kshs. 223,274,097.60 as at 30 June 2013. The schedules availed for audit did not provide an age analysis of the arrears. Also, the debtor's ledger and control accounts were not availed for audit for confirmation.

2.3.6 Unconfirmed Creditors Balances – Kshs.619,187,050.00

A schedule of liabilities availed for audit indicated that outstanding creditors stood at Kshs.619,187,050.00 as at 30 June 2013. However, the Municipal Council of Nakuru did not maintain a creditor's ledger to support the balances. Further, there was no evidence to show that authority was sought and granted for a secured loan with Family Bank whose balance stood at Kshs.76,043,529.00 as at 30 June 2013. It was not clear which assets may have been committed as security for that loan.

In addition, no documents were availed to support Kshs.42,342,702.00 owed for legal services. Further, an amount of Kshs.234,440,729.00 owed to Nakuru Water and Sanitation Services Company was indicated to be contestable. No bills and other correspondences were availed to show that the Council had addressed the matter with the relevant parties. Under the circumstances, the creditors' balances could not be confirmed.

Recommendations

The creditor's balances should be verified and confirmed independently before effecting any payments.

2.3.7 Unauthorised re-allocation of LATF Cash – Kshs.170,683,643.00

During the period under audit, the Council received Kshs. 170,683,643.00 from the Local Authority Transfer Fund (LATF) against an approved budget of Kshs.185,599,411.00 to implement twenty five (25) projects. The projects included the purchase of land for a graveyard at Kshs. 25,000,000.00, sanitation improvement in Council schools at Kshs. 24,452,079.00 and acquisition of land for waste disposal at Kshs. 12,000,000.00. The Council received the LATF cash on 5 March 2013. However, the funds were re-allocated to unrelated expenditure which included payment of staff salary, Kshs. 58,000,000.00, remittance to Lap Trust, Kshs. 56,910,000.00 and Legal fees of Kshs. 6,650,000.00. The payment vouchers pertaining to the LATF cash were not availed for audit.

Recommendations

Funds budgeted for specific projects should not be re-allocated without proper authority.

2.3.8 Non-Disposal of Grounded Vehicles

Documents availed indicated that as at 30 June, 2013, the Municipal Council of Nakuru held a total of forty three (43) vehicles which were grounded. The vehicles had been inspected in 2012 and found to be uneconomical to maintain and were recommended for disposal but no action appears to have been taken. Some of them had been grounded for up to 15 years and there is a risk of loss of value as a result of vandalism and weathering.

Recommendations

All obsolete and idle assets should be disposed off to avoid further deterioration.

2.4 The Defunct County Council of Nakuru

2.4.1 Status of the Bank Accounts

The defunct County Council of Nakuru operated ten bank accounts at Kenya Commercial Bank (KCB), Family Bank, Equity and Co-operative Bank. The bank accounts remained in operation up to 27 June, 2013 on the advice of the Principal Finance Officer of Nakuru County Government as communicated vide a circular Ref:NKU C/G/POF/BANKS/MM dated 10 April, 2013. The officer, vide circular Ref:NKR.C/Finance/Vol. 2 of 27.6.2013, further advised banks to let the accounts remain dormant for six months after 27 June, 2013.

2.4.2 Failure to Prepare Bank Reconciliation Statements

The County Council of Nakuru did not prepare bank reconciliation statements for nine of its ten bank accounts. In the absence of bank reconciliation statements, it was not possible to confirm the cash and bank account balances.

2.4.3 Failure to avail Documents for Audit

During the audit, the Council staff did not avail bank statements or certificates as required by section 37(i) of the Public Audit Act 2003 which provides that the Auditor General shall have access to books, records, and other reports to which the audit relates. Under the circumstances, bank balances during the transition period for the following bank accounts could not be confirmed:

- Fixed Deposits account No.0182206680121 at Family bank
- GRF a/c 0130290467280 at Equity Bank
- European Union A/c No.0112008821202 at Co-op Bank
- Kenya Roads Board A/C No.0112008821202 at co-op Bank
- PRF A/C No.1120088281200 at co-op Bank

Recommendations

The bank accounts should be closed and funds transferred to County Revenue Account. Expenditure incurred during that period should be analysed to confirm proper charge to public funds. The cash books should be updated and bank reconciliation statements should be prepared on monthly basis.

2.4.4 Cash Shortages from Revenue Collectors – Kshs.1,831,749.00

An examination of records held by the main receipts cashier indicated that officers who were charged with the responsibility of collecting revenue failed to remit revenue totaling to Kshs.1,831,749.00. The unremitted amount was invoiced to the respective officers as a cash shortage to be paid. No evidence was availed to show that the money had been, or was being recovered.

Recommendations

The County Government should take steps to recover the shortages from the cashiers.

2.4.5 Unconfirmed Debtors Balance – Kshs. 1,361,988,983.85

Records maintained at the County Council of Nakuru revealed that as at 30 June 2013, the Debtors/Receivables balance stood at Kshs. 1,361,988,983.85 as shown below;

Debtors/Receivables 2012-2013	
Property rates-debtors	1,029,233,184.00
Parastatal Rates	4,848,813.00
CILOR	109,571,311.85
House Rent/market stalls	1,218,960.00
Plot rent	217,285,823.00
Staff advances	193,455.00
Staff imprest	856,397.00
Total Debtors	Kshs.1,361,988,983.85

However, the Council had not prepared a debtors ledger and an age analysis to support the balances.

Recommendations

The County Government should ensure that a creditors ledger is maintained and individual balances reconciled and supported before payments are effected.

2.4.6 Irregular Employment of Staff – Kshs.754,230.00

A review of the payroll for the period covering 1 January to 30 June 2013 revealed payment of salaries amounting to Kshs.754,230.00 to six officers who had been transferred from other Local Authorities to the County Council of Nakuru. However, no confirmations or verifications were done by the Council before paying the officers who had been transferred using transfer letters that were purportedly signed by the Permanent Secretary Ministry of local Government. Although they were later removed from the payroll after receiving salaries totaling to Kshs.754,230.00, it is not clear how the amount will be recovered.

2.4.7 Irregular Engagement of Casual Employees- Kshs. 5,060,060.00

During the period under review the Council engaged casual employees at a cost of Kshs. 5,060,060.00 without seeking authority. This was in contravention of Ministerial circular number 2/2004 dated 28 April 2004 and circular referenced 1384/T4/37 of July, 2006 which directed Local Authorities not to retain in their payrolls casual employees. The expenditure incurred was therefore irregular.

2.4.8 Failure to Maintain an Assets Register

The County Council did not maintain a fixed assets register. Therefore, it was not possible to verify the assets to be transferred to the County Government.

Recommendations

The County Government should identify, take stock and tag all assets. The County Government should maintain a detailed assets register which should be updated regularly.

2.5 The Defunct Municipal Council of Naivasha

2.5.1 Status of Bank Accounts

The Municipal Council of Naivasha maintained eight bank accounts as listed below:-

Bank	Account Name	Account No.	Balance as at 30.6.2013 (Kshs)
Kenya Commercial Bank	L.A.T.F	042215970539	7,797,678.20
Kenya Commercial Bank	General Rate Fund A/c	1126282766	4,533,591.00
Kenya Commercial Bank	Salaries A/C	1126277959	2,877,298.85
Kenya Commercial Bank	Development A/C	1114693928	977,276.00
Kenya Commercial Bank	Roads Maintenance Levy Fund A/C	042215971018	480,614.00
Equity Bank	Kazi Kwa Vijana	0200294989124	1,704.00
Equity Bank	Salaries	0200290110653	29,516.05
Equity Bank	General Rate Fund	0200290110641	27,467.20

The bank accounts remained in operation up to 27 June, 2013 on the advice of the Principal Finance Officer of Nakuru County Government as communicated vide a circular Ref: NKU C/G/POF/BANKS/WM dated 10 April, 2013. The officer, vide circulars Ref. NKR.C/Finance/Vol. 2 of 27 June, 2013, further advised banks to let the accounts to remain dormant for six months after 27 June, 2013.

2.5.2 Unauthorised Bank Overdrafts

Bank reconciliation statements for the Salaries Account and GRF Account indicated that they had debit balances of Kshs.1,037,234.00 and Kshs.213,219.00 respectively as at 30 of June, 2013. No evidence was availed to show that relevant authority was obtained to incur the overdrafts.

2.5.3 Unaccounted for Imprests –Kshs.736,887.00

The Municipal Council had imprests outstanding of Kshs.736,887.00 as at 30 June 2013. The imprests had all been issued in June 2013. However, there was no evidence that imprests warrants were issued. In the absence of the warrants it was not possible to establish the purpose for which the imprests were issued or confirm the authenticity of the imprests surrenders.

Recommendations

All imprests should be surrendered or accounted for on the due date.

2.5.4 Unconfirmed Ownership of Motor Vehicles – Kshs.9,121,692.00

It was noted that the Council bought two vehicles, Toyota Hilux pick up and Toyota Corolla at a total cost of Kshs. 9,121,692.00. The vehicles were bought from Toyota Kenya and bore registration numbers KBR 840U and KBR 847U respectively. Although they were physically verified, their ownership could not be confirmed since the relevant registration documents were not availed for audit examination.

Recommendations

The County Government should avail the ownership documents.

2.5.5 Non - Collection of Cess Revenue - Kshs. 5,931,650.00

During the period 1 January to 30 June 2013, the Council collected Kshs.2,620,000.00 as cess from flower farmers. However, records availed for audit indicated that during the same half-year period, the Council should have collected Kshs. 5,931,650.00 from farmers who belong to a group known as Lake Naivasha Growers Group (LNGG) with whom it had entered into a Memorandum of Understanding so as to charge cess at the rate Kshs 2 per square meter of the area under cultivation. Even then, that basis for charging the cess was contrary to by-laws which required cess on flowers to be charged at the rate of 1% of the gross sales achieved.

2.5.6 Irregular Expenditure on Casual Staff Employment – Kshs.1,740,120.00

An examination of financial records availed for audit indicated that during the period January to June, 2013, the council retained in service staff on casual/ temporary employment. No evidence was availed to show that relevant authority was sought as required by the Ministerial Circular No. 2 /2004 dated 28 April, 2004 and Circular No. Ref: 1384/74/37 dated 18 July, 2006, which provided that Local Authorities should not hire or engage casual workers without the authority of the Minister for Local Government. Further, the expenditure was not factored in the approved budget estimates for the year 2012/2013.

Consequently the expenditure totaling to Kshs.1,740,120.00 in respect of salaries and wages for casual employees was irregular.

2.5.7 Stationery not taken on Charge – Kshs.1,944,750.00

Payment vouchers examined revealed that the council had procured stationery amounting to Kshs. 1,944,750.00. The stationery had not been recorded in the stores ledger cards and was issued directly to user departments. Without stores records it was not possible to confirm that the stationery had been received and used for the intended purpose.

Recomedations

All purchased goods should be taken on charge before they are disbursed to the end users.

2.5.8 Unconfirmed Balance of Outstanding Debtors - Kshs.189,159,569.00

An examination of records indicated that the Council had outstanding debtors amounting to Kshs.189,159,569.00 as at 30 June 2013. At the start of the financial year 2012/2013 the outstanding balance was Kshs.181,112,603.00 and the amounts receivable for the financial year 2012/2013 was Kshs.49,352,605.00. In that period, the Council collected Kshs.50,640,646.00, leaving a balance of Kshs.189,159,569.00. Out of this balance, Kshs.142,589,241.00 or 75% of the debt was due from the National Government as contribution in lieu of rates .

The completeness and accuracy of the debtors could not be confirmed since it omitted outstanding rent from the defunct Council houses and market stalls. The documents also indicated that some houses in Phase IV were non-existent yet the system reflected that rent totaling to Kshs. 76,560.00 was receivable from them. Further, the records maintained did not provide an analysis of the age of the debts.

Recommendations

Verification of debtors owed to the County Government should be done to avoid losses due to nonrecoverability. An appropriate system of recording debtors should be developed to ensure accuracy and completeness.

2.5.9 Unconfirmed Creditors Balance – Kshs. 91,441,990.00

An examination of the records of the Municipal Council of Naivasha revealed that the total outstanding creditors stood at Kshs. 91,441,990.00 as at 30 June 2013. This constituted salary arrears of Kshs. 27,388,234.00 and Local Authorities Pension Trust (Lap Trust) Fund remittances of Kshs. 64,053,756.00. The salary arrears arose from adjustments made to staff salaries as a result of the revised Collective Bargaining Agreements (CBAs) of years 2005 and 2010.

The balance of Kshs.64,053,756.00 owed to the Fund constituted 70% of the statutory liability. However, correspondences between LAPTRUST Fund and the Council indicated that the balance was disputable.

Recommendations

Creditors balances should be confirmed independently before payments are made.

2.5.10 Unimplemented LATF Projects - Kshs 10,500,000.00

During the Financial Year 2012/2013, the Council received a total of Kshs.85,034,292.00 in Local Authority Transfer Fund (LATF) cash. The cash was received in two tranches; Kshs. 45,554,085.00 on 6.12.2012 and Kshs. 39,480,207.00 on 25.02.2013. In the period under audit, the Council had budgeted to implement various projects at a cost of Kshs 47,100,000.00. However, projects worth Kshs.

10,500,00.00 which included construction of Police houses and public toilets were not implemented and there is a possibility that the cost of implementing them may escalate.

Recommendations

Funds should be used for the purpose for which they were budgeted.

3.0 Conclusion

I wish to thank the management of Nakuru County for their cooperation and assistance extended to my staff during the audit. I do hope that the co-operation shall continue into other future audit assignment.

A handwritten signature in black ink, appearing to read 'E. Ouko', with three dots below it.

Edward R.O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

3 November, 2014