REPUBLIC OF KENYA

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL OPERATIONS

OF

ISIOLO COUNTY EXECUTIVE

FOR THE PERIOD
1 JULY 2013 TO 30 JUNE 2014

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EXECUTIVE SUMMARY

Introduction

The Office of the Auditor-General has the mandate to audit and report on the accounts and financial operations of both the National and County Governments under Article 229 of the Constitution and Public Audit Act, 2003. Further, Section 107 of the Public Finance Management Act, 2012 requires the County Treasury to enforce fiscal responsibilities in management of County Government public finances.

Audit Objective

The objective of the audit was to ascertain whether the systems formulated and applied by the Isiolo County Executive were reliable for the management of the County Executive's finances in the delivery of services to the local residents.

Terms of Reference

The terms of reference set for the audit included verification and confirmation of transactions in respect to but not limited to the following areas:

- ✓ Budgetary Control and performance
- ✓ Annual operations/Activity plans
- ✓ Procurement of goods, works and services
- ✓ Allowances including travelling and accommodation expenses-local and foreign trips
- ✓ Motor vehicle running expenses
- ✓ Consultancy services
- ✓ Loans and Grants
- ✓ Imprests and advances
- ✓ Revenue management
- ✓ Cash and bank balances
- ✓ Human Resource Management
- ✓ Information Technology Environment
- ✓ Non-current assets
- ✓ Debtors
- ✓ Creditors
- ✓ Bursaries

Key Audit Findings

1.0 Budgetary Control and Performance

During the year 2013/2014, the County Executive had an approved budget of Kshs.2.78 billion comprised of Kshs.1.74 billion for recurrent and Kshs.1.04 billion for development.

The annual revenue for the County Government was projected at Kshs.2.78 billion comprising of Kshs.2.4 billion from the national equitable share, Kshs.360 million from local revenue sources and Kshs.5.9 million as balance brought forward from the previous year 2012/2013.

Records made available for audit indicated that the County received Kshs.2.2 billion as the national equitable share and collected Kshs.125 million from local sources. The County Executive spent Kshs.1.784 Billion. The under absorption of funds allocated and under performance in local revenue collection was not explained.

2.0 Internal Control Systems

The finance department had only seven officers, a number that was considered in adequate considering that they serve both the Executive and the County Assembly. Further, there is no internal audit department in place. In addition, the following weaknesses were noted in the processing of payments:-

a) Payment vouchers were not numbered

b) The payment vouchers did not have a vote book certificate although they were recorded in the IFMIS system

c) Payment vouchers were not examined

3.0 Foreign Travelling and Accommodation Allowances

The County Executive had budgeted to spend Kshs.13,797,605 on foreign travels but spent Kshs.12,682,150. This resulted to an under expenditure of Kshs.1,115,455 or (8%) of the budgeted amount. Either, no documents were produced for audit to show the countries visited, nature of the visits and the number of officers involved.

In the circumstances, the propriety of the expenditure could not be confirmed.

4.0 Unaccounted for Consultancy Services Expenditure

The County Executive incurred an expenditure of Kshs.2,805,500 on 9 April 2014 in respect of legal fees paid to a legal firm. However, the payment voucher, legal fee notes and procurement documents were not made available for audit review. It was, therefore, not possible to ascertain whether any legal services were provided by the firm.

5.0 Seminar /Workshops and Training Sponsorship

The County Executive paid tuition fees for six officers totaling Kshs.1,208,800 without complying with the relevant regulations that govern sponsorship. Further, there was no training policy or committee that would have established the training needs of the employees of the County Government. Under the circumstances, it was not possible to ascertain the propriety of the training expenditure of Kshs.1,208,800 as at 30 June 2014.

6.0 Revenue

6.1 Under collection of Revenue

The County Government had targeted to raise Kshs.360,000,000 from local sources in the financial year 2013/2014. However, only Kshs.125 million which was 31.3 per cent of the annual local revenue target was realized. The failure to meet the set target was attributed to reduced tourist numbers leading to a collection of Kshs.84,772,849 from the parks against a budget of Kshs.210,000,000.

No efforts appear to have been made to enhance local revenue collection.

6.2 Un-receipted / Unbanked Game Fees Revenue

As previously reported during the special audit covering the period between March 2013 and June 2013, the Kenya Association of Tours Operators(KATO) was appointed as selling agents for Buffalo Springs and Shaba National Reserves entry tickets through a contract signed with the defunct County Council of Isiolo in February,1995. KATO was to stock tickets, vet the tours operators to whom tickets were sold, submit to the Council an analysis of ticket sales on a weekly basis. KATO was to be paid a commission at the rate of four (4) percent of the face value of all the tickets.

The agreement which was valid for twenty four (24) months up to 2 February, 1997 has never been renewed. But KATO has continued to collect the park revenue ever since without any legal contract.

Further, during the period under review, KATO retained Kshs.2,763,327 being 4% of the collected revenue Kshs.66,319,853 as the commission. This resulted to an under banking and under reporting of County Government Revenue and Expenditure by Kshs.2,763,327.21. KATO are required to remit all the revenue collected and be paid their commission and not to retain it.

6.3 Failure to recognize Payroll Processing Revenue

The County Executive charged payroll processing fee to various banks for check off deductions but these charges were not receipted as county revenue. During the period under audit, Kshs.39,744 had been deducted. Although the payroll processing fee had been recognized as revenue as from 1 April to 30 June 2014, the Kshs.39,744 collected earlier had not been receipted as at the time of audit.

No explanation was given for failure to recognize the fees as revenue.

6.4 Unremitted liquor licensing Fees

Examination of receipt books and records maintained at the Isiolo Deputy County Commissioner’s office revealed that liquor licensing revenue amounting to Kshs.2,361,000 was collected from businesses operating within Isiolo County between July 2013 and June 2014. However, the amount was remitted directly to NACADA as revenue collected in respect of licensing and implementing the Alcoholic Drinks Control Act, 2010. The licenses were issued by the National Government instead of the County Government contrary to the Constitution as this is a devolved function as the per Section 4(c) Part 2 of the Fourth Schedule.

6.5 Long Outstanding Un-surrendered Receipt Books

Examination of Counterfoil Receipts Book Registers (CRB’s) made available for audit revealed that receipt books with a value of Kshs.1,951,000 issued to revenue collectors had not been surrendered as at 30 June 2014.

It was also noted that the County continued using the receipt books printed by the defunct Isiolo County Council some of which were printed as far back as April, 2006.

6.6 Cost Sharing Revenue

During the year under review, the County Executive of Isiolo had not taken over the collection of the cost sharing revenue at the Isiolo District Hospital.

Revenue totaling Kshs.25,943,982 was collected at the Hospital and spent through the cost sharing system at the District Treasury. Since Health is a devolved function, all revenue collected at the hospital should be banked into the County Revenue Fund Account.

6.7 Uncollected Revenue

Examination of credit sales register at the Isiolo District Hospital disclosed that the hospital credit sales were not collected promptly leading to revenue under collections which amounted to Kshs.593,805 as at 30 June 2014. No explanations have been provided for this anomaly.

7.0 Cash and Bank Balances

The County Executive operated five bank accounts; one maintained at the Kenya Commercial Bank, one at the Consolidated Bank, Isiolo branch and three others at the Central Bank of Kenya.

No monthly reconciliation statements were prepared for the three accounts maintained at the Central Bank of Kenya (CBK).

No explanation was given for failure to prepare reconciliation statements for the three accounts maintained at the CBK.

8.0 Non Establishment of Emergency Fund

During the year under review, the County Government did not create an Emergency Fund as required by the Public Finance Management Act, 2012. The purpose of an Emergency Fund is to enable payments of urgent and unforeseen expenditure which there is no specific provision in the current budget.

9.0 Human Resources

9.1 Non-Reimbursement of Salaries paid by the National Government

The County Executive was required to re-imburse from its allocated funds, salaries for 735 officers' in the devolved functions paid by the National Government**.** Although the National Treasury circular ref: CONF/MOF.51/08`C'/(72) dated 4 April 2014 indicated the balance due as Kshs.251,659,813 the list made available for audit by the County Treasury revealed an outstanding reimbursement of Kshs.362,501,029, as at 30 June 2014, thereby creating a reconciled difference of Kshs.110,841,215 between the amount demanded by the National Treasury and the amount calculated by the County Government.

Further, the County Executive only made one payment dated 22 April 2014 of Kshs.121,315,311 which had not been acknowledged by the recipient ministries.

9.2 Non Remittance of Staff Deductions to the National Government

During the period between January and June 2014, the Isiolo County Executive deducted rent totaling Kshs.849,325 from officers occupying Government houses.

There was no evidence that the National Government had surrendered its buildings or its revenue to the County Government of Isiolo to justify the current situation.

The amounts deducted were not remitted to the National Government or receipted as part of the County Government revenue and therefore the accountability of the funds could not be ascertained.

9.3 Operations without an Approved Staff Establishment

The County Executive recruited County Chief Officers as required by the County Government Act, 2012 and as per the approved budget. However, the County Executive did not prepare or approve its personnel establishment and hence managed its human resource without an approved establishment. Consequently, the adequacy, appropriateness, existence and the necessity to fill the vacancies or the possibility of staff progression could not be ascertained.

9.4 Inappropriate Management of Personnel Records

Audit of the County human resource records revealed that the County Executive had not established a personnel registry or opened personal files for all seconded staff. All personnel records both open and confidential were kept in an open office with unlimited access by any staff. Further, there was no copy of the Last pay Certificates for employees who were seconded and are in the County Executive payroll.

9.5 Unpaid and Unbudgeted for Staff Salaries

Following the implementation of a new Collective Bargaining Agreement that was effected on 1 September 2012 by the defunct County Council, there arose salary arrears and unremitted pension deductions that could not be paid as a result of not being budgeted for during the financial year 2012/2013. The staff salary arrears and pension deductions outstanding schedule made available for audit review revealed that the Isiolo County Government was yet to pay salaries arrears amounting to Kshs.50,211,728.

9.6 Irregular Payment of Locum Allowances

Examination of expenditure incurred by Isiolo District Hospital revealed that an amount totaling Kshs.770,000 was paid to various staff in form of Locum allowances to health workers for working overtime without an approval of the County Executive or the hospital management committee.

9.7 Doubtful Appointment

Records held in the human resource department indicated that one officer, the County Economic Advisor was formerly employed by the Teachers Service Commission (TSC), before his current appointment. However, no records were maintained to show whether he resigned as an employee of the TSC upon his appointment as an Economic Advisor.

10.0 IT Environment

The County Executive of Isiolo adopted the use of IFMIS and GPAY in November 2013 and the earlier manual transactions were journalized in the IFMIS system. However, it was observed that direct banking from KATO was not captured in the LAIFOM system creating differences between collections in the LAIFOM system and banking. In addition, there was no evidence of back up of all the transactions in IT systems, LAIFOM, GPAY, IFMIS or IPPD.

11.0 Non-Current Assets

The County Executive did not maintain a fixed assets register. They still rely on the fixed asset register that was used by the defunct Isiolo County Council**.** The value of the fixed assets of the defunct local authority as at 28 February 2013 amounted to Kshs.14,155,106,914 as per the audited accounts**.** Further, it was observed that assets acquired by the County Executive valued at Kshs.220,322,700 had not been recorded in the fixed assets register.

12.0 Creditors and Payables

The County Executive did not maintain any record of creditors such as creditor's ledger or register. Further, as previously reported, the statement of assets and liabilities as at 28 February 2013 prepared by the defunct Isiolo County Council reflected creditors totaling Kshs.165,878,929. However, as at 30 June 2013, the creditor's balances had increased to Kshs.195,229,710 as per schedule made available for audit.

13.0 Non Establishment of Audit Committee

The County Executive did not establish an internal audit committee as required by the Public Finance Management Act, 2012. The audit committee would have performed various roles which include;

- Understanding and assessing the overall risks the County is facing.

- Reviewing the adequacy of internal controls that management has put in place regarding financial control, accounting systems and reporting.

- Reviewing the entity's compliance with all relevant legislation and statutory requirements.

14.0 Failure to take Over Assets and Liabilities of the Defunct County Council

As previously reported, during the special audit covering the period between March 2013 and June 2013, the County Government of Isiolo had not officially taken over the assets and liabilities of the defunct County Council of Isiolo as at the time of audit. The value of the assets and liabilities of the defunct local authority as at 28 February 2013 amounted to Kshs.14,155,106,914.00 and Kshs.151,880,458.00 respectively as per the audited accounts. Failure to take over the assets and liabilities was contrary to instructions issued by the former Ministry of Local of Government vide circular No. MLG/1333/TY/52 of 18 February, 2013.

15.0 Debtors

The receivables/ debtors balances as at 30 June 2014 were Kshs.38,804,166 as per LAIFOM schedule made available for audit review. The amount was in respect of outstanding plot rates and rent. It was however observed that:-

i. The County Executive did not age its debtors during the year under review.

ii. There were no demand notes issued to debtors.

iii. The County Executive does not have a policy for debtors.

16.0 Un-vouched Expenditure

Expenditure totaling Kshs.166,046,039 incurred by the County Executive was not examined as the records relating to the expenditure were collected by the Ethics and Anti-Corruption Commission for investigations on 20 and 21 August 2014 and 18 and 26 September 2014. The records had not been returned as at the time of audit in February 2014. It was however not explained why copies were not retained for record purposes.

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

Nairobi

21 May 2015

DETAILED REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL OPERATIONS OF ISIOLO COUNTY EXECUTIVE FOR THE PERIOD 1 JULY 2013 TO 30 JUNE 2014

Detailed Audit Findings and Recommendations

1.0 Budgetary Control and Performance

During the year 2013/2014, the County Executive had an approved budget of Kshs.2.78 billion comprised of Kshs.1.74 billion for recurrent expenditure and Kshs.1.04 billion for development expenditure.

Included in the approved budget was Kshs.303.4 million recurrent budget for the County Assembly.

The annual revenue for the County Government was projected at Kshs.2.78 billion comprising Kshs.2.4 billion from the national equitable share, Kshs.360 million from local revenue sources and Kshs.5.9 million as balance brought forward from the previous year 2012/2013.

Records made available for examination indicated that the County received Kshs.2.2billion as the national equitable share out of which Kshs.1.459 billion was for recurrent expenditure and Kshs.1.784 billion for development expenditure. The County collected Kshs.125 million from local sources. The total local revenue collected during the period under review accounted for 34.70 per cent of the annual local revenue target.

The County Government spent a total of Kshs.1.95 billion representing 70 per cent of the funds budgeted during the year under review. The County Executive spent Kshs.1.784 Billion while Kshs.212 million was spent by the County Assembly which represents 70.3 per cent and 69.9 per cent respectively.

The County Executive spent Kshs.1.39 billion on recurrent expenditure (80%) and 394 million on development activities (20%). The recurrent expenditure for the period under review was 54 per cent of the funds released for recurrent activities while development expenditure was 40 per cent of the funds released for development projects.

A breakdown of recurrent expenditure reveals that the County spent Kshs.654 million on personnel emoluments which translates to 47 per cent of the total recurrent expenditure while Kshs.736 million was spent on operations and maintenance accounting for 53 per cent of the expenditure.

No explanation was given for failure to absorb all the funds budgeted and allocated during the year. The under performance in local revenue collection was also not explained.

Recommendations

- The County Executive should review the local revenue collection frameworks by appointing receivers of revenue and implementing automated revenue collection systems.

- Devolved units should declare all their revenue collections to the County Executive and ensure that the same is deposited to designated collection accounts and transferred regularly to the County Revenue Fund Account.

- The County Executive should set realistic local revenue targets in subsequent budgets.

2.0 Internal Control Systems

The finance department had only seven officers a number that was considered inadequate taking into account the fact that they serve both the County Executive and the assembly. Further, there was no internal audit department created so far. In addition, the following weaknesses were noted in the processing of payments:-

- Payment vouchers were not numbered

- The payment vouchers did not have a vote book certificate although they were recorded in the IFMIS system

Recommendations

- The County Executive should adequately staff the finance department to ensure that there is segregation of duties in processing of payments and there are strong internal controls.

- Internal audit department should be created in line with the requirement of PFM Act, 2012.

- Payment vouchers should be pre-revised and vote booked appropriately.

3.0 Foreign Travelling and Accommodation Allowances

The County Executive had budgeted to spend Kshs.13,797,605 on foreign travels but spent Kshs.12,682,150. This resulted to an under expenditure of Kshs.1,115,455 or (8%) of the budgeted amount. Further, no documents were made available for audit to show the countries visited, nature of the visits and the number of officers involved.

In the circumstances, the propriety of the expenditure could not be confirmed.

Recommendations

- Management should provided the require information for audit verifications

- Any amounts not supported should be recovered appropriately.

4.0 Unaccounted for Consultancy Service Expenditure

The County Executive incurred an expenditure of Kshs.2,805,500 on 9 April 2014 in respect of legal fees paid to a law firm. However, the payment voucher, legal fee notes and procurement documents were not made available for audit verification. It was, therefore, not possible to ascertain whether any legal services were provided by the firm.

Recommendations

- Management should make available all the tender documents, legal fee demand notes, invoices and the payment voucher for audit verifications.

- Any amounts paid without value for money should be recovered

5.0 Seminar Workshops and Training Sponsorship

The County Executive paid tuition fees for six officers totaling to Kshs.1, 208,800 without complying with the relevant regulations that govern sponsorship or complying with the laid down regulations. Further, there was no training policy or committee that would have established the training needs of the employees of the County Government.

Recommendations

- The management of the County Government should put in place a training policy and guidelines on sponsorship of its employees.

- Any amounts paid with supporting documents should be recovered appropriately

6.0 Revenue

6.1 Under - Collection Revenue

The County Executive had targeted to raise Kshs.360,000,000 from local sources in the financial year 2013/2014. During the period under review, the cumulative local revenue raised by county amounted to Kshs.125 million which was 31.3 per cent of the annual local revenue target. The failure to meet the set target was attributed to reduced tourist numbers leading to a collection of Kshs.84,772,849 from the parks against a budget of Kshs.210,000,000.

It was also observed that the County Government has not yet appointed receivers of revenue as required by Section 157 (1) of the Public Finance Management Act, 2012.

No efforts appear to have been made to enhance revenue collection.

Recommendations

The County Executive should set realistic targets for revenue collection to be able to implement the budgeted projects.

- Every effort should be made to ensure revenue collection is maximized.

- All revenue leakages should be identified and sealed.

- Any revenue collected and not banked/accounted for should be recovered.

6.2 Collection of Revenue without contract agreement by KATO

As previously reported during the special audit covering the period between March 2013 and June 2013, the Kenya Association of Tours Operators (KATO) was appointed as sales agents for Buffalo Springs and Shaba National Reserves entry tickets through a contract signed with the defunct County Council of Isiolo in February,1995.

KATO was to stock tickets, vet the tour operators to whom tickets were sold, submit to the Council (County) an analysis of ticket sales on a weekly basis. They were to be paid a Commission at the rate of four (4) percent of the face value of all the tickets.
The agreement which was valid for twenty four (24) months up to 2 February, 1997 has not been renewed or any other service provider identified. As at the time of audit, eight years later, KATO was still collecting the said revenue without any agreement in place.

Further, during the period under review, the KATO retained Kshs.2,763,327 being 4% of the collected revenue of Kshs.66,319,853 as their commission. This resulted to an under banking and under reporting of County Government Revenue by Kshs.2,763,327. In addition, the revenue collected by KATO was directly banked and it was therefore not recorded in the LAIFOM system.

No explanation was given for continued payment of commission to KATO despite the contract having expired in February 1997.

Recommendations

- All revenue collections must be receipted and banked intact and no source deduction should be allowed.
- The County Executive should have in place a valid agreement and any receiver of revenue should be designated by the County Executive Committee Member for Finance as required by Section 157 of the Public Finance Management Act, 2012.
- All collected revenue by KATO should be accorded for accordingly.

6.3 Failure to Recognize Payroll Processing Revenue

The County Government of Isiolo charged payroll processing fee to various banks for check off deductions but these charges were not receipted as county revenue. During the period July 2013 to 31 March 2014, Kshs.39,744 had been deducted. Although the payroll fee had been recognized as revenue between 1 April to 30 June 2014, the Kshs.39,744.15 collected earlier had not been receipted as at the time of this audit.

No explanation was given for failure to recognize the fees as revenue.

Recommendations

- All payroll processing commissions should be receipted on a monthly basis.
- The uncollected fees of Kshs.39,744.15 should be accounted for appropriately

6.4 Unremitted Liquor Licensing Fees

Examination of receipt books and records maintained at the Isiolo Deputy County Commissioner's office revealed that liquor licensing revenue amounting to Kshs.2,361,000 was collected from businesses operating within Isiolo County between July 2013 and June 2014. However, the amount was remitted directly to NACADA as revenue collected in respect of licensing and implementing the Alcoholic Drinks Control Act, 2010. The licenses were issued by the National Government instead of the County Government contrary to the constitution as this is a devolved function under Section 4 (c) Part 2 of the Fourth Schedule. The revenue collected by NACADA included application fees of Kshs.105, 000 and license fee of Kshs.2,256,000.

It was not explained why the county government failed to collect the revenue.

Recommendations

- The County Executive should follow up with NACADA to reimburse the revenue collected.

- It should also start collecting the liquor licensing revenue.

6.5 Long Outstanding Un-surrendered Receipt Books.

Examination of Counterfoil Receipts Book Registers (CRB's) made available for audit revealed that receipt books with a value of Kshs.1,951,000 issued to revenue collectors had not been surrendered. It was also noted that the County continued using the receipt books printed by the defunct Isiolo County Council some of which were printed as far back as 1996.

No efforts appear to have been made to have the long outstanding receipt books surrendered and accounted for.

Recommendations

The County Executive should ensure that all receipt books issued are accounted for and returned once complete.

Further, the County Executive should ensure that there are strong internal controls to ensure that all receipt books are accounted for in good time.

6.6 Cost Sharing Revenue

The County Executive of Isiolo had not taken over the collection of the cost sharing revenue at the Isiolo District Hospital. Revenue totaling Kshs.25,943,982 was collected at the Hospital and spent through the cost sharing system at the District Treasury. Since health is a devolved function, all revenue collected at the hospital should be collected and banked in the County Revenue Fund Account.

No explanation was given for failure to collect the revenue at the hospital.

Recommendations

- All revenue collections should be banked in the County Revenue Fund Account as required by the Public Financial Management Act, 2012.

- Management should control the receipt books used to collect revenue to avoid revenue leakage.

6.7 Uncollected Revenue

Examination of credit sales register at the Isiolo District Hospital disclosed that the hospital credit sales were not collected promptly leading to revenue under collections which amounted to Kshs.593,805 as at 30 June 2014.

No explanation was given for failure to collect the amount.

Recommendations

- All hospital credit sales should be recorded and payment followed up to ensure that all revenue due is collected.

- The County Executive should automate the revenue collection system.

7.0 Cash and Bank Balances

During the period under review, the County Executive operated five bank accounts; one maintained at the Kenya Commercial Bank, one at the Consolidated Bank, Isiolo branch and the three others at the Central Bank of Kenya. No monthly reconciliation statements were prepared for the three accounts maintained at the Central Bank of Kenya (CBK).

No explanation was given for failure to prepare reconciliation statements for the three accounts maintained at the CBK.

Recommendation

The County Executive should prepare monthly bank reconciliation statements for all the bank accounts maintained.

8.0 Non Establishment of Emergency Fund

During the period under review, the County Government did not create an Emergency Fund as required by the Public Finance Management Act, 2012. The purpose of an Emergency Fund is to enable payments to be made in respect of a county when an urgent or unforeseen need for expenditure for which there is no specific provision was made in the budget.

No explanation was given for failure to establish an emergency fund.

Recommendations

- Management should create an emergency fund in compliance with Section 110 of the Public Finance Management Act, 2012.

- The County Government should ensure emergency funds are used appropriately.

9.0 Human Resources

9.1 Non-Reimbursement of salaries paid by the National Government

The County Executive was required to reimburse from its allocated funds salaries for 735 officers' in the devolved functions paid by the National Government. Although the National Treasury circular ref: CONF/MOF.51/08`C'/(72) dated 4 April 2014 indicated the balance due as Kshs.251,659,813.00, the list made available for audit by the County Treasury revealed an outstanding reimbursement of Kshs.362,501,029 as at 30 June 2014 thereby creating un-reconciled difference of Kshs.110,891,215 between the amount demanded by the National Treasury and the amount calculated by the County Government. Further, the County Executive only made a payment of Kshs.121,315,311 on 22 April 2014 which had not been acknowledged by the following ministries who had been enlisted as the beneficiaries;-

Ministry Name	Amount (Kshs.)
Agriculture livestock and fisheries	19,565,767
Health	89,138,625
Youth	1,934,067
Water	5,423,392
Planning	555,291
Cooperative	1,228,674
Housing	220,170
Trade	274,630
Labour	1,529,790
Lands	1,444,905
Total	**121,315,311**

In addition, it was not clear why the payments were addressed to the ministries instead of the National Treasury which had made the demand on behalf of the National Government or why there were differences between the amount in demand and the records at the Isiolo County Government. The balance had not been cleared as at 30 June 2014.

Recommendations

- The County management should reconcile the balances for salaries paid by the National Government for the devolved functions staff and reimburse the amount due to National Government.

- All payments recorded the National Government Ministries should be acknowledged appropriately.

9.2 Non Remittance of Staff Deduction to the National Government

During the period between January and June 2014, the Isiolo County Executive deducted rent totaling Kshs.849,325 from officers who were in occupation of Government houses. However, the amounts deducted were not remitted to the National Government or receipted as part of the County Government revenue and therefore the accountability of the funds could not be ascertained.

There was no evidence that the National Government had surrendered its buildings or its revenue to the County Government to justify the current situation.
In the circumstances, the accountability of the deducted amount could not be confirmed.

Recommendations

- All revenue due to National Government should be remitted to National Treasury.
- All revenue for the County Government should be recognized and deposited in the County Revenue Fund Account.
- The deductions of Kshs.849,325 should be accounted for appropriately.

9.3 Operations without an Approved Staff Establishment

During the period under review, the County Executive recruited County Chief Officers as required by the County Executive Act, 2012 and as per the approved budget. However, the County Government did not prepare or approve its personnel establishment and hence managed its human resource without an approved establishment. Consequently, the adequacy, appropriateness, existence and the necessity to fill the vacancies or the possibility of staff progression was not ascertained.

No explanation was given for failure to have an approved staff establishment in place.

Recommendation

The County Government should prepare its approved staff establishment as a guide on the issues that affect the County staff.

9.4 Management of Personnel Records

Audit of the County human resource records revealed that the County Executive had not established a personnel registry or opened personal files for all seconded staff. All personnel records both open and confidential were kept in an open office with unlimited access. There was no Last pay Certificates for employees who were seconded from devolved departments and are in the County Executive payroll.

No explanation was given for the omission.

Recommendation

The County Executive should establish a personnel registry and develop policies on the access, use and retention of records.

9.5 Unpaid and Unbudgeted for Staff Salaries

Following the implementation of a new Collective Bargaining Agreement that was effected on 1 September 2012 by the defunct County Council, there arose salary arrears and unremitted pension deductions that could not be paid as a result of not being budgeted for during the financial year 2012/2013 of Kshs.50,211,728.

No explanation was given for failure to pay the salary arrears and statutory deductions.

Recommendation

The County Executive should audit and budget for the unpaid staff salaries arrears and other liabilities to ensure that the arrears are cleared.

9.6 Irregular Payment of Locum Allowances

Examination of payments made by the Isiolo District Hospital revealed that an amount totaling Kshs.770,000 was paid to various staff in form of Locum allowances to Health workers for working overtime without an approval of the County Executive or the hospital management committee.

No explanation was given for the irregular expenditure.

Recommendation

The allowances paid should be recovered from the salaries of the payees as they irregular.

9.7 Doubtful Appointment

Records held in the human resource department indicated that an Economic Advisor was formerly employed by the Teachers Service Commission (TSC), before his current appointment. However, no records were maintained to show whether he resigned as an employee of the TSC upon his appointment as an Economic Advisor.

In the circumstances, it was not possible to confirm whether the officer was still holding his former position in addition to the new appointment.

Recommendation

The County Executive should confirm from the TSC that the officer is no longer on its payroll.

10.0 Information Technology Environment

The County Executive of Isiolo adopted the use of IFMIS and G-PAY in November 2013. The earlier manual transactions were journalized in the IFMIS system. However, it was observed that direct banking from KATO was not captured in the LAIFOM system creating differences between collections in the LAIFOM system and banking.

In addition, there was no evidence of back up of all the transactions in IT systems, LAIFOM, GPAY, IFMIS or IPPD.

It was not explained why the IT systems were not adequately protected and backed up as required.

Recommendations

- The County Executive should adequately protect and back up all IT systems.
- The County Executive should develop an IT strategic plan, an IT steering committee and disaster management plans to enhance data integrity.

11.0 Non-Current Assets

The County Executive did not maintain a fixed assets register. It still relies on the fixed asset register that was used by the defunct Isiolo County Council**.** The value of the fixed assets of the defunct local authority as at 28 February 2013 amounted to Kshs.14,155,106,914 as per the audited accounts**.** In addition it was noted that:-

- The County Executive does not have in place policies and procedures relating to Asset management.
- The assets are not coded.
- Non-Current assets are not physically inspected on a regular basis.
- Ownership documents for land whose acreage is unknown were not made available for audit.
- There was no sharing of assets between the County Assembly and County Executive.

In the circumstances, it was not possible to distinguish which assets belonged to the County Executive and which ones belonged to the County Assembly as both the Assembly and Executive are housed in one building.

In addition, the following assets valued at Kshs.220,322,700 were procured during the period under review but were not recorded in the fixed assets register.

Asset Item	**Amount (Kshs).**
Purchase of Furniture and Other Equipment	35,530,053
Purchase of Motor Vehicles and Other Equipment	155,910,319
Construction of Buildings	4,427,508
Purchase of Specialized Plant, Equipment and Machinery	24,424,820
	220,322,700

No explanation was given for failure to maintain a fixed assets register.

Recommendation

The County Executive should put in place adequate systems and processes to plan for, procure, account for, maintain, store and disposal of assets, including an asset register that is current, accurate and available in compliance with Section 149 (2) (o) of the Public Finance Management Act, 2012.

12.0 Creditors and Payables

The County Executive did not maintain any record of creditors such as creditors ledger or register. Further, as previously reported, the statement of assets and liabilities as at 28 February 2013 prepared by the defunct Isiolo County Council reflected creditors totaling Kshs.165,878,929. However, as at 30 June 2013, the creditor's balances had increased to Kshs.195,229,710 as per schedule made available for audit.

In the absence of the creditors' ledger or register, it was not possible to establish the completeness and accuracy of the creditors balance.

Recommendations

- The County Treasury should maintain creditor's ledgers and registers to record creditor's transactions and carry out regular reconciliations between County records and Creditors records.
- Creditors balances inherited from the defunct County Council should be verified before any payment is made.

13.0 Non Establishment of Audit Committee

During the period under review, the County Executive did not establish an internal audit committee as required by the Public Finance Management Act, 2012. The audit committee would have performed various roles which include;

- Understanding and assessing the overall risks the entity is facing.
- Reviewing the adequacy of internal controls that management has put in place regarding financial control, accounting systems and reporting.
- Reviewing the entity's compliance with all relevant legislation and statutory requirements.
- Regular communication with the external auditors and the review of management letter and other reports.
- Review of any significant findings of internal investigations and management response thereto, including the reports of internal audit.
- Overseeing the proper functioning of internal audit in terms of resources, independence; and adequacy of audit procedures.
- Evaluating whether management appropriately addressed material weaknesses in internal control, identified during the year, by internal and external audit.

- Review of the design and implementation of internal control procedures in the entity for major areas including asset, expenditure and revenue management.

- Review of the risk management and related policies

- Review and approve of the scope and the implementation of the internal audit plan.

No explanation was given for failure to establish an audit committee as required by the PFM Act, 2012.

Recommendation

The County Government should establish an internal audit committee in compliance with Section 155(5) of the Public Finance Management Act, 2012.

14.0 Failure to take Over Assets and Liabilities of the Defunct County Council

As previously reported during the special audit covering the period between March 2013 and June 2013, the County Executive of Isiolo had not officially taken over the assets and liabilities of the defunct County Council of Isiolo as at the time of audit.

The value of the assets and liabilities of the defunct local authority as at 28 February 2013 amounted to Kshs.14,155,106,914.00 and Kshs.151,880,458.00 respectively as per the audited accounts.

No explanation was given for failure to take over the assets and liabilities of the defunct council.

Recommendation

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

15.0 Debtors

The receivables/ Debtors balances as at 30 June 2014 were Kshs.38,804,166 as per LAIFOM schedule, being plot rates and outstanding rent. Examination of the debtors' balances disclosed the following:-

- The County Executive did not age its debtors.

- There were no demand notes issued to the rent and rate payers.

- The County Executive does not have a policy for debtors.

- There were no mechanisms in place to ensure that all debtors paid the outstanding amount totaling Kshs.38,804,166 as at 30 June 2014.

No explanation was given for failure to have a debtor's policy in place.

Recommendations

- Management should age its debtors and make a provision for bad and doubtful debts where necessary.

- It's important to circularize debtors as at the end of a financial year to confirm the balances.

16.0 Un-vouched Expenditure

An expenditure totaling Kshs.166,046,039 incurred by the County Executive was not examined as the records relating to the expenditure were taken by the Ethics and Anti-Corruption Commission for investigations on 20 and 21 August 2014 and 18 and 26 September 2014. The records had not been returned as at the time of audit. It was however not explained why copies of the original were not retained for record purposes.

Recommendation

Management should provide the expenditure details for audit verification

Conclusion

The Isiolo County Executive should address the anomalies noted in order to ensure effective delivery of services to the people of Isiolo. Laid down government procedures and processes should be adhered to ensure public resources are only used for purposes for which they were intended.

Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

21 May 2015