

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

**REPORT**  
**OF**  
**THE AUDITOR–GENERAL**  
**ON THE**  
**FINANCIAL OPERATIONS**  
**OF**  
**MARSABIT COUNTY**

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### **DETAILED AUDIT REPORT ON OPERATIONS OF COUNTY GOVERNMENT OF MARSABIT EXECUTIVE AND COUNTY ASSEMBLY, DEFUNCT COUNTY COUNCILS OF MARSABIT AND MOYALE FOR THE PERIOD JANUARY TO 30 JUNE 2013**

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# **SPECIAL AUDIT REPORT ON THE OPERATIONS OF MARSABIT COUNTY GOVERNMENT AND FORMER COUNTY COUNCILS OF MARSABIT AND MOYALE FOR THE PERIOD 1 JANUARY TO 30 JUNE 2013**

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## **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 Further, the County Government Act, 2012 Section 134 (1) repealed the Local Government Act, Cap 265, and thus effectively dissolving all the 175 Local Authorities and creating 47 County Governments.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 a seamless transition process and proper systems for accountability of public resources before, during and after transition to County Governments.

### **2.0 Audit Objectives**

The audit covered the County Executive and County Assembly and the former County Councils of Marsabit and Moyale transactions for the period 1<sup>st</sup> January to

30<sup>th</sup> June, 2013 and took into account transactions before, during and after the transition period. The terms of reference set for the audit included verifications and confirmations of transactions in respect to but not limited to the following areas:

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

**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**

#### **Marsabit County Executive and County Assembly**

##### **3.1 Failure to Take Over the Defunct County Councils of Marsabit and Moyale**

The Marsabit County Government had not officially taken over the assets and liabilities of the former County Councils of Marsabit and Moyale as at the time of audit conclusion on 23 September, 2013, contrary to instructions issued by the Ministry of Local Government vide Circular No. MLG/1333/TY/52 of 18<sup>th</sup> February, 2013. Arrangements should be made by Transition Authority to have assets and liabilities of the former County Councils handed over to the County

Government. The former Councils' assets and liabilities closing balances will assist the County Government in determining opening balances for the books of account.

## **3.2 Current Assets and Liabilities**

### **(i) Cash and Bank Balances**

The Marsabit County Government continued to operate three bank accounts of the defunct local authorities even after opening the County bank accounts, in total disregard of the requirements of the County Governments Public Finance Management Transition Act, 2013. The three (3) bank accounts of the defunct County Council of Moyale and five (5) accounts of the defunct County Council of Marsabit were still operational as at the conclusion of the audit exercise on 23 September 2013.

Failure to close bank accounts implied that revenue collections continued to be banked in these accounts, and expenditure incurred, contrary to the law. The banks accounts should be closed and balances transferred to County Revenue Account. Expenditure incurred during the period should also be investigated and confirmed proper charge to public funds.

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.

**(ii) Debtors**

The debtors' balances as at 28 February 2013 totalling Kshs.52,555,559 transferred from the former Councils remained unchanged as at 30 June 2013. However, appropriate systems for recording debtors by the County Government should be developed to ensure accuracy of records. Also, debt collection policy should be put in place to facilitate collection of County debts as and when they fall due.

**(iii) Creditors**

Creditors balances outstanding in respect to defunct County Councils of Moyale and Marsabit of Kshs.10,556,172 and Kshs.21,412,949 respectively, had not been taken on charge in the County's books of account as at 30<sup>th</sup> June 2013. The creditors should be promptly recorded in the ledgers detailing particulars of each creditor and the same updated on a regular basis. The creditors' balances should be confirmed independently before effecting any payments.

**3.3 Fixed Assets Records**

Assets listed under the defunct Local Authorities of Marsabit and Moyale of Kshs.3,710,531 and Kshs.13,359,059 respectively totaling to Kshs.17,069,590 as at 30 June 2013. However, the two Councils had not valued their assets. Further, the County Government did not maintain an assets register to record assets taken over from the defunct County Councils and those purchased. An assets register to record assets taken over from the defunct Local Authorities and those being acquired by the County Government should be maintained and updated on regular basis. The assets should be valued to ascertain the fair values.

### **3.4 Revenue Collection**

The County Government Revenue Account at the Kenya Commercial Bank, Marsabit was opened on April 2013 where all revenue collected after 5<sup>th</sup> March 2013 was supposed to be banked intact. Although banking of revenue in the account commenced on 23 April 2013, the defunct County Councils collected and banked Kshs.4,272,365 in the unclosed bank accounts. Further, there was no evidence that the revenue control sheets were checked by any senior officer to confirm accuracy of revenue collected. Proper systems should be put in place to ensure that revenue collected is promptly received, recorded and banked intact. All bank accounts of the defunct County Councils not yet closed should be closed and balances transferred to the County Revenue Account.

### **3.5 Procurement of Goods and Services**

#### **(i) Irregularities in Procurement of Motor Vehicles**

The County Executive procured thirteen (13) vehicles worth Kshs.89,914,153 during the period under review. The vehicles were procured through use of direct procurement method instead of open tender. The procurement of eleven (11) motor vehicles costing Kshs.67,901,241 was not discussed by the Tender Committee. Further, no Local Purchase Orders (LPOs) and delivery notes were seen in respect to the eleven (11) vehicles. In addition, log books for eight (8) vehicles were not made available for audit verification and Pre-delivery Inspection Reports for all the thirteen (13) vehicles were not seen.

**(ii) Irregular Procurement of Computers, Laptops and Accessories**

The County Government procured Computers, Laptops and Accessories at a total cost of Kshs.3,075,900 through quotations in June, 2013, and without specifications for the computers and laptops. The costs of the computers at Kshs.1,755,900 and laptops at Kshs.1,320,000 were above the thresholds for request of quotations of Kshs.1,000,000. Physical verification of the computers and laptops was not possible as there were no delivery notes.

All future procurement of goods and services should be done in accordance with the Public Procurement and Disposal, Act, 2005 and related 2006 regulations in order for the County to ensure competitiveness and realize value for money.

**(iii) Refurbishment of County Assembly Offices**

Further, a Marsabit based firm was awarded a contract for refurbishment of the County Assembly at a contract price of Kshs.3,968,278 on 20 June 2013. However, for unexplained reasons, a payment was processed and a cheque drawn on 30 June 2013 even before the works had commenced. Although the cheque was being held at the County Treasury as at the time of audit conclusion on 23 September 2013, the contractor had not moved to the site.

**(iv) Stationery not accounted for**

Assorted stationeries worth Kshs.1,711,000 were ordered and paid for on 27 and 28 June 2013. Examination of stores records disclosed that the stationeries were not taken on charge and therefore, propriety of the expenditure could not be confirmed.



### **3.6 Personnel Records**

#### **Recruitment of Chief Officers**

Scrutiny of the County payroll (IPPD) for the Month of June 2013 revealed that four (4) chief officers were appointed to various posts in June 2013. However, in the four (4) appointments, diversity in terms of gender was not considered. The County Government should ensure that all future appointments are in line with the 30% gender requirement as per the Constitution.

### **3.7 Other Audit Findings**

#### **Financial Assistance to Marsabit District Hospital**

On 29 June 2013, the County Government paid Kshs.800,000 to the Medical Officer of Health, Marsabit District Hospital from the Contingency Fund to facilitate the running of the hospital. The letter from the County Health Director requesting for emergency funds of Kshs.1,050,000 was however dated 5<sup>th</sup> July 2013, long after the funds had been released. No minutes were made available for audit confirmation that the Hospital Management Board made a resolution to seek assistance from the County Government. Verification carried out at the Hospital on 13 September, 2013 disclosed that none of the activities listed had been implemented and no records were maintained to show how the amount was spent. Documentation on receipt and use of the funds should be provided to the County Government to ensure proper accountability of public funds.

## **Defunct County Council of Marsabit**

### **3.8 Improper Handing Over to Transition Authority/County Government**

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

### **3.9 Current Assets and Liabilities**

#### **(i) Cash and Bank Balances**

The County Council of Marsabit operated six (6) bank accounts. However, five (5) bank accounts had not been closed as at the conclusion of the audit exercise on 23 September 2013. Further, in the months of March and April 2013, a total of Kshs.1,466,846 was withdrawn from the County Council's Main Account instead of the County Government Account to cater for normal operations of the County Government. This was contrary the County Governments Public Finance Management Transition Act, 2013 which required that the former Council's bank accounts be closed and reconciliations done within three months w.e.f 5<sup>th</sup> March 2013.

**(ii) Debtors-Outstanding Plot Rates and Rents**

Debtors totalling Kshs.25,516,818 were reflected in the statement of assets and liabilities as at 28 February 2013. The Council disclosed contribution in lieu of rates of Kshs.20, 312,427 in the statement , while the records reflected a balance of Kshs.17,956,849, hence un-reconciled difference of Kshs.2,355,578. No system for recording debtors was maintained. The County Government should develop an appropriate system for recording debtors to ensure accuracy of the records. Also, debt collection policy should be put in place to facilitate collection of County debts as and when they fall due.

**(iii) Outstanding Creditors/Payables**

Creditors totalling Kshs.21,412,949.95 were reflected in the statement of assets and liabilities as at 28 February, 2013. However, accuracy and authenticity of the creditors could not be ascertained since updated ledgers were made available for audit review. The Creditors' ledger should be updated in order to reflect accurate creditors' position to avoid payments being made to fictitious suppliers and ghost employees.

**3.10 Non-Current Assets**

The defunct Council had not coded its fixed assets and there was no regular count of the assets. Further, log books for two (2) motor vehicles as well as fixed assets register were not made available for audit verification. One motor vehicle was registered under Green Earth Programme and had private number plate. Four (4) vehicles were grounded due to mechanical problems. The Council did valuation of fixed assets but the final draft was not ready for verification. As such, assets balance of Kshs.3,710,531 as at 30 June 2013 is based on cost. Ownership

documents for all motor vehicles and other assets should be obtained and the same put under proper custody of the County Government to prevent any future loss or theft.

### **3.11 Revenue Collections**

Between January and June 2013, total revenue collected by the Council was Kshs.5, 387,845 made up of Kshs.2,828,460 and Kshs.2,559,385 for the period January and February, 2013 and March to June, 2013 respectively. Out of the total amount, only Kshs.3,461,841 was banked resulting into under banking of Kshs.1,926,004. The difference was made up of payments made direct from revenue as advances to staff members and councilors, contrary to financial regulations and procedures. Expenditure incurred at source was not recorded in the cashbook or advances register. Revenue collected should be bank intact in accordance with the requirements of Government Financial Regulations and Procedures.

### **3.12 Personnel Records**

#### **(i) Chief Officers sent on Compulsory Leave**

The Clerk and Treasurer of the defunct County Council of Marsabit were sent on compulsory leave with effect from 11 June 2013 in respect to allegations of misappropriation of funds. However, by the time the letter was written to the Treasurer, the Treasurer had already been deployed by the Transition Authority as Principal Administrative Officer-Embu County vide letter Ref. No. TA/HRM/6 dated 27 May, 2013. The letter was validly forwarded to him on 29 May 2013 by the Interim County Secretary, Marsabit County. Further, the Clerk was also

deployed as Interim Head of Treasury Accounts – Isiolo County vide letter Ref. No. TA/HRM/6 dated 4 July 2013. As at the time of completion of the audit in September 2013, no investigation had been carried out by the County Management to establish allegation of payments done without services being provided.

**(ii) PAYE Deductions**

A total of Kshs.6,257,745 was paid to Commissioner of Domestic Taxes between October, 2012 and June 2013 in lieu of PAYE for staff but without supporting schedules or analysis. The payments were not recorded in the cashbook. Further, the defunct County Council paid staff salaries and house allowances arrears amounting to Kshs.3,101,809 on 25 February 2013 through cash, but failed to deduct PAYE. The PAYE not deducted should be recovered and the money remitted to Kenya Revenue Authority to avoid huge penalties for late remittances.

**3.13 Other Audit Observations**

**(i) Unsupported Expenditure on Transition Authority**

Payment vouchers for the period January to 27 February 2013 indicate that expenditure totalling to Kshs.610,100 was incurred on behalf of the Transition Authority during the swearing in ceremony of the Governor for Marsabit County. However, the expenditure was not supported and therefore its propriety could not be confirmed. Documents supporting the expenditure should be provided. Also, all expenditure incurred should be properly supported.

**(ii) Irregular Spending of Kenya Roads Board Funds (KRBF)**

In January 2013, the defunct County Council of Marsabit spent Kshs.390,000 from KRB funds on matters not directly related to roads management. No expenditure should be incurred for any other purposes other than the intended.

**Defunct County Council of Moyale**

**3.14 Improper Handing Over to the County Government**

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

**3.15 Current Assets and Liabilities**

**(i) Cash and Bank Balances**

The three (3) bank accounts operated by the defunct County Council of Moyale had not been closed as at the time of audit conclusion on 23 September 2013. This was contrary to the County Governments Public Finance Management Transition Act, 2013 which required that the bank accounts be closed and reconciliations done within three months w.e.f 5<sup>th</sup> March 2013. The bank accounts of the defunct

Council should be closed without further delay and balances transferred to County Revenue Account.

**(a) Non Maintenance Cash Book**

The defunct County Council operated a current account with Equity Bank-Moyale but no cashbook had been maintained for the same. As a result, it was not possible to confirm how transactions in respect of the account were recorded and accounted for in the Council's books of account. Cashbooks should be maintained for all bank accounts for proper accountability of funds.

**(b) Preparation of Bank Reconciliation Statements**

The defunct Council did not prepare bank reconciliation statements for the LAFT and GRF accounts. No explanation was given for non-preparation of the reconciliation statements which is a requirement of the Government financial regulations and procedures. Bank reconciliation statements should be prepared on monthly basis to enable early detection of errors or fraudulent transactions. They should also be checked by a senior official to ensure accuracy.

**(c) Failure to Conduct Cash Board of Survey**

No board of survey for cash and bank balances was carried out during the period 2012/2013. A cash board of survey would have ascertained cash and bank balances which were to be handed over to the County Government as at 28 February, 2013. Cash board of surveys should be conducted at the closure of every financial year as required by Government financial regulations.

**(ii) Debtors/Receivables**

A summary of debtors schedules availed reflected current debtors/receivables totalling to Kshs.21,804,350 whereas at 30 June 2013, current debtors balance was Kshs.27,038,741. The difference of Kshs.5,234,391 relates to contribution in lieu of rates omitted in the statement of assets and liabilities as at 28 February 2013. No complete debtors schedule to show details of individual debtors was produced for audit review. Appropriate systems for recording debtors should be developed to ensure accuracy of records. Also, debt collection policy should be put in place to facilitate collection of County debts as and when they fall due.

**(iii) Creditors/Payables**

The Creditors balances as at 28 February 2013 were not made available although a handing over report Ref: MYL/CC/HTO/98/VOL.1/64 of 21 June 2013 reflects balances as 30 June 2013 totalling to Kshs.10,556,172. The creditors should be promptly recorded in a ledger indicating particulars of each creditor and the same updated on a regular basis. No payments should be made before independent confirmation of authenticity of the creditors.

Further, creditors totalling Kshs.1,603,187 had no supporting documents while a total of Kshs.299,679 in respect of a court award to a former Council employee.

**3.16 Fixed Assets Records**

The fair values of the fixed assets as at 28 February 2013 and 30 June 2013 could not be ascertained due to lack of proper records. Available information indicate that motor vehicles, furniture, fittings and computers totalled Kshs.13,359,059 as at



30 June 2012. A total of five vehicles and one motor cycle were physically verified. The County Government should ensure that systems which will facilitate proper recording of assets are developed to prevent theft or loss of property in future.

### **3.17 Other Audit Findings**

#### **(i) Direct Spending of Revenue**

The County Council collected revenue totalling Kshs.4,568,848 during the months of January and February 2013. Revenue totalling Kshs.1,882,201 was spent before banking. The expenditures were incurred for the day to day running of Council activities and were not recorded in the cashbook, contrary to the financial regulations and procedures which require that revenue collected be banked intact.

#### **(ii) LATF: Double Payment of Accrued Councilors Contributions to LAPFUND**

The defunct County Council received Kshs.18,946,092 from Ministry of Finance as LATF disbursements on 22 February 2013. Examination of LATF expenditure for the year 2012/2013 revealed that accrued Councilors' contribution for the period July 2012 – December 2012 to Local Authority Provident Fund (LAPFUND) amounting to Kshs.1,639,440 was included in amount of Kshs.4,300,000 paid on 19 November 2012 vide cheque number 000884. Further, a bank transfer of Kshs.1,639,440 was done on 27 February 2013 to LAPFUND in respect of accrued Councilors' contributions for July – December 2012, resulting to a double payment. This should be investigated and a claim put up for a refund.

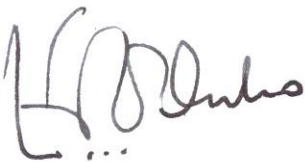
**(iii) Non-Submission of Financial Statements of the Defunct County Council of Moyale**

Marsabit County Government did not submit for audit, financial statements of the defunct County Council of Moyale for eight (8) months period ended 28 February 2013 as instructed by Transition Authority. These financial statements should be prepared and the same submitted for audit without further delay.

**3.18 Conclusion**

The foregoing observations clearly indicate that the process of taking over of assets and liabilities, including staff of the former Council 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 Public Finance Management Act 2012.

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



**Edward R. O. Ouko, CBS**  
**AUDITOR-GENERAL**

**05 December, 2013**

# **DETAILED AUDIT REPORT ON OPERATIONS OF COUNTY GOVERNMENT OF MARSABIT EXECUTIVE AND COUNTY ASSEMBLY, DEFUNCT COUNTY COUNCILS OF MARSABIT AND MOYALE FOR THE PERIOD JANUARY TO 30 JUNE 2013**

## **1.0 Introduction**

This report covers the operations of County Government of Marsabit comprising the Executive and the Assembly and the defunct County Council of Marsabit. The County Council of Marsabit however ceased operations upon repeal of the Local Government Act, Cap 265 under Section 134 (1) of the County Government Act, 2012.

## **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**

#### **Marsabit County Executive and Assembly**

##### **3.1 Failure to Take Over the Defunct County Councils of Marsabit and Moyale**

The County Government of Marsabit had not taken over the assets and liabilities of the defunct County Councils of Marsabit and Moyale as at the time of audit conclusion on 13 September 2013. The Government however continued utilizing the assets, some of which were income generating but ownership of the same had not been transferred from the former Local Authorities.

##### ***Recommendation***

***Transition Authority should ensure that accurate statements of assets and liabilities as at 28 February 2013 are prepared by former Councils' chief officers to enable a proper handing to the County Government. These balances will form***

*a basis for opening balances to be recorded in the County Government books of accounts.*

### **3.2 Current Assets and Liabilities**

#### **(i) Cash and Bank Balances**

##### **a) Failure to Close Bank Accounts**

The County Government opened County Revenue and Operations bank accounts in April 2013, into which revenue was to be banked. However, three (3) accounts of the defunct County of Moyale and five (5) accounts of the defunct County Council of Marsabit were still operational as at the conclusion of the audit exercise on 23 September 2013, in total disregard of the requirements of County Government Public Finance Management Transition Act, 2013.

##### **b) Maintenance of Cash Books**

During the period 23 April to 30 June 2013, the County Government collected revenue totaling to Kshs.4,356,021. However, a receipts cash book to record the revenue was not maintained. Also, only one cashbook was operated for the transactions of both the County Government and County Assembly although these are distinct accounting units.

##### **c) Failure to carry out board of survey**

The accounting officer did not arrange for a board of survey to verify and confirm cash on hand and bank balances at the close of business on 30 June 2013. This contravened requirements of government financial regulations and procedures.

### ***Recommendations***

***The County Government should ensure that bank accounts of the defunct Councils are closed and balances transferred to County Revenue Account. Cash board of survey should be conducted annually at the closure of the financial year, while receipts cashbook to be maintained to facilitate prompt recording of revenue. A separate cash book should be opened for the County Assembly for proper accountability of funds allocated to the Assembly.***

#### **(ii) Debtors**

The debtors' balance as at 28 February 2013 totaling to Kshs.52,555,559 transferred from the former Local Authorities remained unchanged as at 30 June 2013. The figure is made up of Kshs.27,038,741 and Kshs.25,516,818 for County Councils of Moyale and Marsabit, respectively. However, the County Government did not validate or consolidate debtors from the two defunct County Councils. Further, no debtors register was maintained by the County Government.

### ***Recommendation***

***The County Government should ensure that debtors' register is maintained and updated in order to prevent any omissions and to facilitate recoverability of the receivables.***

#### **(iii) Creditors**

Although the defunct Local Authorities had been instructed to hand over all their liabilities as at 28 February 2013 to the Transition Authority, it was noted that as at 30 June 2013 the balances outstanding in respect of defunct County Councils of Moyale and Marsabit of Kshs.10,556,172 and Kshs.21,412,949.95 respectively, had not been taken on charge in the County's books of account. Also, the County

Government had not opened a creditor's ledger and had not validated the creditors as at 30 June 2013.

### ***Recommendations***

***The County creditors should be validated and promptly recorded in the ledgers detailing particulars of each creditor and the same updated on a regular basis to ensure that no false claims are paid. In addition, the creditors' balances should be confirmed independently before any payments are made.***

### **3.3 Fixed Assets Records**

During the period under review, the County Government did not maintain an assets register to record assets taken over from the defunct County Council of Marsabit and Moyale of Kshs.3,710,531 and Kshs.13,359,059 respectively, as well as those purchased after assumption of office.

### ***Recommendation***

***The County Government should ensure that all assets under its custody are properly recorded in a register, labeled, and updated on regular basis.***

### **3.4 Revenue Collection**

The County Government Revenue account at Kenya Commercial Bank, Marsabit was opened on April 2013 where all revenue collected was supposed to be banked intact. Although banking of revenue in the account commenced on 23 April 2013, the defunct County Councils collected and banked Kshs.4,272,365 in their bank accounts which had not been closed. Also, there was no evidence that revenue

control sheets were checked by a senior officer to confirm accuracy of revenue collected. Further, the receipt books formerly issued by the defunct County Councils continued to be used to collect revenue although the County Government ought to have re-called all the receipt books and issue them a fresh for the purposes of control and proper accountability of revenue.

### ***Recommendations***

***The County Government should put in place a strong internal control system to ensure that there is proper accountability at every stage in the revenue collection cycle. Revenue collection control sheets should be maintained by the Revenue Officer, who should ensure that official receipts are issued to revenue collectors whenever revenue is surrendered.***

## **3.5 Procurement of Goods and Services**

### **(i) Irregularities in Procurement of Motor Vehicles**

The County Executive procured thirteen (13) motor vehicles costing Kshs.89,914,153 during the months of May/June 2013. The following irregularities were noted:

- (i) The vehicles were procured using direct procurement method instead of open tender and no notification to Public Procurement Oversight Authority was seen.
- (ii) The County Government Tender Committee did not discuss the procurement of eleven (11) motor vehicles hence it was not clear who approved their purchase.



- (iii) No Local Purchase Orders (LPOs) were issued for eleven (11) vehicles costing Kshs.67,901,241 supplied while delivery notes were also not attached for ease of confirmation of delivery.
- (iv) Log books for eight (8) vehicles were not made available for audit verification.
- (v) No inspection by the Ministry of Transport and Infrastructure was done hence Pre-delivery Inspection Reports for all the thirteen (13) vehicles were not seen.
- (vi) Within a span of 1 month, from 06.05.2013 – 07.06.2013, the price of 4.2L L/Cruiser Hard Top 4,164cc at M/S Toyota Kenya Ltd, Box 3391–0056 Nairobi increased from Kshs.6,876,152 to Kshs.7,135,434, an increase of Kshs.259,282 per vehicle, resulting to the County Government incurring an extra cost of Kshs.518,564 for the two vehicles purchased on 07 June 2013.
- (vii) At the same time, the price of 4.2L L/Cruiser Hard Top 4,164cc at M/s Crater Automobiles was Kshs.7,027,938 compared with Kshs.7,135,434 at M/S Toyota Kenya Ltd, the County Government lost Kshs.214,992 for the two vehicles.
- (viii) The price of L/Cruiser Pick up – S/Cabin 4,164cc at M/s Crater Automobiles was Kshs.4,432,694 and compared with Kshs.4,845,596 at M/S Toyota Kenya Ltd, there was a price difference of Kshs.412,902 had the County Government bought the two (2) vehicles at M/s Crater Automobiles, a saving of Kshs.825,804 would have been realized.
- (ix) In total, the County Government lost Kshs.1,040,796 for purchasing two 4.2L L/Cruiser Hard Top 4,164cc and two L/Cruiser Pick up – S/Cabin 4,164cc from M/s Toyota Kenya Ltd, instead of purchasing them from M/s Crater Automobiles.
- (x) No records were maintained for the motor vehicles and other fixed assets.

### ***Recommendations***

***The County Executive to justify the procurement of the thirteen (13) vehicles through direct procurement method and to provide notification made to PPOA if available. Also, ownership documents for all the motor vehicles should be obtained immediately from Kenya Revenue Authority. The assets should be recorded and safe custody ensured.***

#### **(ii) Irregular Procurement of Computers, Laptops and Accessories**

The County Government procured Computers, Laptops and Accessories at a cost of Kshs.3,075,900 during the period under review. However, the following irregularities were noted:-

- i) No specifications for the computers and laptops had been sought from the County Government IT unit.
- ii) No delivery notes were made available to the audit team hence physical verification of the computers and laptops was not possible.
- iii) Purchase of the computers and laptops were above the thresholds for the request of quotations of Kshs.1,000,000.
- iv) The minutes of the technical evaluation committee were not made available for audit verification.
- v) The minutes of Marsabit County Government tender committee of 24 June 2013 indicate that the two tender awards were given on the strength of the Secretariat recommendation which is not provided for under the Public Procurement and Disposal Act, 2005.

### ***Recommendation***

***The Public Procurement and Disposals Act, 2005 and related Regulations of 2006 should be followed to ensure that goods and services are procured competitively and at the most economical prices.***

### **(iii) Refurbishment of County Assembly Offices**

Further, a Marsabit based firm was awarded a contract for refurbishment of the County Assembly at a contract price of Kshs.3,968,278 on 20 June 2013. However, for unexplained reasons, a payment was processed and a cheque drawn on 30 June 2013 even before the works had commenced. Although the cheque was being held at the County Treasury as at the time of audit conclusion on 23 September 2013, the contractor had not moved to the site.

### **(iv) Stationery not accounted for**

Assorted stationeries worth Kshs.1,711,000 were ordered and paid for on 27 and 28 June 2013. Examination of stores records disclosed that the stationeries were not taken on charge and therefore, propriety of the expenditure could not be confirmed.

## **3.6 Personnel Records**

### **(i) Recruitment of Chief Officers**

Scrutiny of the County payroll (IPPD) for the month of June 2013 revealed that four (4) officers were appointed to various posts in June, 2013. However, in the four (4) appointments, diversity in terms of gender appears not to have been considered, contrary to the spirit of the constitution.

Also, audit report on human capital for Moyale County was not made available although the Transition to Devolved Government act, 2012 required Transition Authority to carry out audit of the existing human resource of the County and defunct Local Authorities and advise on the effective and efficient rationalization and deployment of the human resource to other levels of Government.

### ***Recommendation***

***Future appointments should be in line with the constitutional requirement in terms of gender and even ethnicity. Audit of the staff should be done to ascertain optimum staff requirements and to identify skill gaps for future recruitment plans.***

### **3.7 Other Audit Findings**

#### **Financial Assistance to Marsabit District Hospital**

On 29 June 2013, the County Government paid Kshs.800,000 to Medical Officer of Health, Marsabit District Hospital from the Contingency Fund to facilitate running of the hospital. This was in response to a letter Ref. No. MC/HELD/VOL.I/1 from County Health Director, dated 5 July 2013 addressed to the County Governor, requesting for financial assistance of Kshs.1,050,000, on behalf of the District Hospital. However, no minutes were made available to the audit team to support approval of transfer of Kshs.800,000 to MOH Marsabit Hospital. Also, no minutes were made available for audit review from Marsabit District Hospital to show that the Hospital Management discussed and agreed to seek assistance from the County Government. Further, urgency of the works could not be justifiable since physical verification carried out at the Hospital on 13 September 2013, revealed that none of the projects listed in the request letter had been implemented. Also, the funds were hurriedly released on 29 June 2013, even before the request letter was written.

### ***Recommendation***

***The County Government should investigate and confirm how the funds were utilized. Also, proper procedures should be followed when effecting all payments.***

## **Defunct County Council of Marsabit**

### **3.8 Improper Handing over to County Government**

There was no proper handing over of the former County Council of Marsabit's assets and liabilities to the Transition Authority as required by the Ministry of Local Government Circular MLG/1333/TY/52 of 18 February 2013. As a result, the County Government had not formally taken over the former Council's assets and liabilities as at the time of audit conclusion in September, 2013.

### ***Recommendations***

***The County Government should ensure that former Chief Officers of the defunct Local Authority properly hand over the assets and liabilities. Outstanding debts should be fully disclosed to ensure that the County Government only inherits genuine debts.***

### **3.9 Current Assets and Liabilities**

#### **(i) Cash and Bank Balances**

##### **(a) Irregular withdrawals from Defunct County Council bank accounts**

During the months of March and April 2013 Kshs.1,466,846 was withdrawn from the County Council Main Account instead of the County Government Account to

cater for normal operations of the County Government. This was contrary to the requirements of the Transition law.

**(b) Bank Reconciliation Statements**

The defunct County Council of Marsabit did not prepare monthly bank reconciliation statements for the period July 2012 to 28 February 2013. As a result, accuracy of cash and bank balances could not be confirmed. Failure to prepare monthly bank reconciliation statements may lead to loss of funds due to undetected irregular transactions.

***Recommendations***

***Closure of the five (5) bank accounts should be affected immediately and balances transferred to County Revenue Account. Bank reconciliation statements of all bank accounts of the defunct Council should be prepared and accuracy of the same confirmed by a senior County official.***

**(c) Failure to close bank accounts**

The County Council of Marsabit operated six (6) bank accounts. However, one of the accounts was closed on 12 June 2013 and the balance of Kshs.354,969 transferred to the Marsabit County Government Revenue Account. The other five (5) accounts had not been closed as at the time of audit conclusion on 23 September 2013.

Further, balances as at 30 June, 2013 for accounts not closed could not be confirmed because bank statements were not made available due to the fact that the Clerk and Treasurer of the former Council had been sent on compulsory leave pending investigations on some alleged malpractices.

**(ii) Debtors-Outstanding Plot Rates and Rents**

Debtors totaling Kshs.25,516,818 were reflected in the statement of assets and liabilities as at 28 February 2013. However, the Council disclosed contribution in lieu of rates of Kshs.20,312,427, while Council's records made available reflected a balance of Kshs.17,956,849, resulting un-reconciled difference of Kshs.2,355,578. It was also noted that debtors' ledger maintained did not indicate amounts accrued and any other payments which may have been received, raising doubt on accuracy and validity of the balances which ought to have been handed over to the County Government.

***Recommendation***

***Updated debtor's ledger should be maintained to include specific debtors' particulars. Also, a debt collection policy should be developed to facilitate recoveries.***

**(iii) Outstanding Creditors/Payables**

Creditors totaling Kshs.21,412,949.95 were reflected in the statement of assets and liabilities as at 28 February, 2013. However, updated schedules, statements of changes on individual creditor's balances or invoices supporting the balances were not made available for audit review. Consequently, accuracy of the creditors balances could not be ascertained.

***Recommendation***

***Creditor's ledger should be up dated and balances validated before any payments are made.***

### **3.10 Non-Current Assets**

The County Council listing of assets showed motor vehicles, computers, and other office equipment and furniture. However, fair values of the assets as at 28 February 2013 could not be ascertained since no records were maintained by the Council. The defunct Council had not coded its fixed assets and there was no evidence of regular count of the assets. The log books for motor vehicle KAH 005Y (Ford Tractor) and ZB 3034 (Trailer) were not made available for verification. The motor vehicle KAK 600 H (Toyota Station Wagon) had a private number plate and was registered under Green Earth Programme. The vehicle and three (3) others; KZB 264, KUL 398 and KWE 350 were grounded with mechanical problems.

Further, the Council did valuation of fixed assets in July 2012, but the final draft had not been approved and therefore, the assets balance of Kshs.3,710,531 as at 30 June, 2012 was reflected at cost.

#### ***Recommendation***

***The log book for KAK 600H (Toyota Station Wagon)) should be changed from Green Earth Programme to the County Government for validity of ownership. The assets of the defunct Council should be valued, coded and properly recorded to prevent loss or theft.***

### **3.11 Revenue Collections**

Examination of revenue records for the period January to June 2013 disclosed total revenue collections of Kshs.5,387,845. However, only Kshs.3,461,841 was banked resulting in unexplained under banking of Kshs.1,926,004. In addition, expenditure



records indicate revenue spent directly totaling to Kshs.1,281,365, and therefore a cash shortage of Kshs.644,639.

### ***Recommendations***

***The County Government should put in place strong internal control systems to ensure proper accountability at every stage in the revenue collection cycle, such as daily counter checking of receipts cash book by a senior officer and daily balancing of the cash book. The cash shortage should be investigated and the loss made good.***

### **3.12 Personnel Records**

#### **(i) Chief Officers sent on Compulsory Leave**

Scrutiny of the defunct County Council of Marsabit employees' files revealed that the Clerk and Treasurer of the defunct County Council were sent on compulsory leave with effect from 11 June 2013 in respect to allegations of misappropriation of funds. However, by the time the letter was written to the Treasurer, he had already been deployed by the Transition Authority as Principal Administrative Officer – Embu County vide letter Ref. No. TA/HRM/6 dated 27 May, 2013. The letter was validly forwarded to him on 29 May 2013 by the Interim County Secretary, Marsabit County. Further, the Clerk was also deployed as Interim Head of Treasury Accounts – Isiolo County vide letter Ref. No. TA/HRM/6 dated 4 July 2013. As at the time of completion of the audit in September 2013, no investigation had been carried out by the County Management to establish allegation of payments done without services being provided.

***Recommendation***

***The Interim County Secretary should justify the reasons for sending the Chief Officers on compulsory leave and explain why the officers were deployed to other Counties before initiating investigations on their cases.***

**(ii) (PAYE) Deductions**

A total of Kshs.6,257,745 was paid to Commissioner of Domestic Taxes in lieu of PAYE for staff and councilors between the months of October, 2012 and March 2013. The payments were not supported with schedules or analysis and were not recorded in the cash book.

Further, the defunct County Council paid staff salaries and house allowances arrears amounting to Kshs.3,101,809 on 25/02/2013 through cash payment. The management did not deduct PAYE as required by Income Tax Act.

***Recommendation***

***The payroll records should be reconciled and expenditure on PAYE properly supported with relevant schedules for confirmation of propriety of the payments. PAYE tax for salaries and house allowances arrears for September 2012 to February 2013 should be computed and recovered from staff and remitted to Kenya Revenue Authority.***

### **3.13 Other Audit Observations**

#### **(i) Unsupported Expenditure on Transition Authority**

Examination of payment vouchers for the period January to 27 February 2013 revealed that expenditure totaling to Kshs.610,100 was incurred on behalf of the Transition Authority by the County Council during the swearing in ceremony of the Governor of Marsabit County. The expenditure related to night out allowances, fencing materials and casual wages amounting to Kshs.511,500, Kshs.78,600 and Kshs.20,000 respectively. However, the expenditure could not be confirmed as properly charged to the defunct County Council of Marsabit in the absence of supporting documents.

#### ***Recommendation***

***Expenditure incurred should be properly supported and fully accounted for in accordance with Government financial regulations and procedures.***

#### **(ii) Irregular spending of Kenya Roads Board Funds (KRBF)**

During the month January 2013, the defunct County Council spent Kshs.390,000 from KRB funds on matters not directly related to roads management, thereby disrupting plans set for roads maintenance.

#### ***Recommendation***

***The KRB funds guidelines and regulations should be adhered to.***

#### **(iii) Doubtful and Irregular Expenditures**

Examination of payment vouchers revealed that stationeries worth Kshs.1,711,000 were ordered and paid for on 27 and 28 June, 2013. However, examination of

stores records revealed that the stationeries were not recorded in the stores ledger nor were any records made available to confirm that the stationeries were delivered and properly utilized.

In addition, five (5) quotations No. MBT/OU/23/2012-2013 floated for the refurbishment of the County Assembly offices were opened and adjudicated vide tender committee minute No.5/3/6/2012 and the contract awarded at a cost of Kshs.3,968,278. Local Service Order (LSO) no. 554216 was subsequently raised and invoice no.0327 of 28 June13 submitted to the Clerk of the County Assembly for payment. A payment voucher was prepared and effected vide cash book voucher no.485 of 30 June 2013, but the cheque was withheld because the works had not been executed.

As at the time of audit conclusion on 23 September 2013, refurbishment works had not began and the assembly offices remained in dilapidated state. According to procurement law, procurement of refurbishment works of the Assembly Offices should have been sourced through open tender since it exceeded the threshold of Kshs.2,000,000.

It remains unclear why the County Treasury prepared a cheque for payment when the works had not even commenced. It is also not clear when the works will be done taking into account the fact that the contract was awarded in June 2013.

### ***Recommendations***

***Due procurement procedures should be adhered to in future and immediate action should be taken to refurbish the County Assembly Offices which are in a pathetic state. No payments should be processed before goods, services or works have been confirmed delivered, rendered or executed.***

## **Defunct County Council of Moyale**

### **3.14 Improper Handing Over to the County Government**

There was no proper handing over of the former County Council of Moyale assets and liabilities to the Transition Authority as required by the Ministry of Local Government. This was apparently because the Transition Authority officials advised the former Council's Chief Officers to only hand over official documents, assets and office equipment in their possession. Also, a 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 circular from Ministry of Local Government dated 18 February 2013.

#### ***Recommendations***

***Chief Officers of the defunct Local Authority should properly hand over the assets and liabilities to the Transition Authority to enable the County Government have a basis of opening balances to be recorded in their books of account. There should be full disclosure of outstanding debts to assist the County Government to inherit known and genuine debts.***

### **3.15 Current Assets and Liabilities**

#### **(i) Cash and Bank Balances**

##### **(a) Non Closure of Bank Accounts**

The defunct County Council of Moyale operated three bank accounts in two different commercial banks. According to the County Governments Public Finance Management Transition Act, 2013 bank accounts operated by the Defunct Local Authorities were supposed to be closed upon takeover of the

defunct County Councils by the County Government. However, as at the time of audit on 23 September 2013, all the three accounts had not been closed.

***Recommendation***

***Closure of the three (3) bank accounts should be affected immediately and the balances transferred to County Revenue account. Bank reconciliation statements of all bank accounts of the defunct Council should be prepared and accuracy of the same confirmed by a senior County official.***

**(b) Transacting in GRF and Operations Accounts after the 28 February 2013**

Scrutiny of bank statements for the two (2) bank accounts of the defunct County Council of Moyale namely, General Rate Fund (GRF) and Operations Accounts maintained at the Kenya Commercial Bank (KCB) and Equity Bank respectively, revealed that the accounts remained operational after 28 February 2013. A total of Kshs.1,934,045 was deposited into the GRF account between March and 30 June 2013, while withdrawals made in April and May 2013 amounted to Kshs.2,153,511. Deposit made into Operations Account in March 2013 was Kshs.146,620, while withdrawals totaled Kshs.80,000. No authority was given by the Transition Principal Officer to have the bank accounts remain open.

**(c) Non Maintenance Cash Book**

Audit verifications revealed that the defunct County Council operated a current account with Equity Bank–Moyale, but no cash book was maintained for the same. A counter book described as cash book analysis of payments

maintained did not reflect any receipts. In the absence of a cash book recording both receipts and payments, it was not possible to establish accuracy of cash book balances at any one time.

**(d) Bank Reconciliation Statements**

The defunct Council did not prepare bank reconciliation statements for the LAFT and GRF accounts. Further, the LATF cash book was not being balanced.

**(e) Failure to Conduct Board of Survey**

Audit verifications confirmed that there was no board of survey carried out on 28 February and 30 June 2013. The survey on 28 February 2013 would have confirmed the cash and bank balances on the date the council was supposed to have closed its books of accounts in readiness for takeover by the County Government.

***Recommendation***

- i) The bank accounts should be closed immediately and balances transferred to County Revenue Account.***
- ii) Proper cash books to be maintained for all accounts and board of survey carried out after closure of each year in accordance with financial regulations and procedures.***
- iii) Bank reconciliation statements for all bank accounts of the defunct council should be prepared and accuracy of the same confirmed by a senior official.***

**(ii) Debtors/Receivables**

The statement of assets and liabilities as at 28 February 2013 reflected current debtors and receivables totaling to Kshs.21,804,350. The defunct Council had however not disclosed contribution in lieu of rates totaling Kshs.5,234,391. As at 30 June 2013 current debtors balances were as shown below:

<b>Item</b>	<b>Amount (Kshs)</b>
Plot Rent	16,777,800
Market Ground Rent	26,550
China Wu Yi	5,000,000
CILORS	<u>5,234,391</u>
<b>Total</b>	<b>27,038,741</b>

However, the Council did not make available for audit review, a complete debtors schedule showing details of the individual debtors.

***Recommendation***

- a) The County Government should ensure that the debtors' ledger is updated and reconciled regularly to reflect the correct position of the balances at any given time.***
- b) Debt collection policy should be put in place to facilitate recoverability of the debts.***

**(iii) Creditors**

The Council's creditors' balances totaled Kshs.10,556,172 according to a report referenced MYL/CC/HTO/98/VOL.1/64 of 21 June 2013. Scrutiny of creditor's balances revealed the following unsatisfactory matters:



- a) Creditors totaling to Kshs.1,603,187 were not supported with verifiable documents like Local Purchase Orders, invoices or delivery notes in respect to goods and services received by the Council.
- b) A court award made to a former council employee is reflected in the statement as amounting to Kshs.287,149. However, according to council's legal records seen, the amount comprises only interest and excludes decritical sum of Kshs.144,600 and proposed costs of Kshs.155,079, totaling to Kshs.299,679.
- c) The creditor's balance for LAPFUND as per the handing over report was Kshs.3,076,656. The group monthly contributions arrears schedule for the period July 2012 to March 2013 reflected a balance of Kshs.2,786,053, resulting to unreconciled difference of Kshs.290,603.
- d) Creditors' ledgers were not updated, rendering accuracy of balances as at 28 February and 30 June 2013 doubtful.

### ***Recommendation***

***Creditors' ledgers should be properly maintained, up dated and reconciliations carried out to ensure accuracy of the balances.***

### **3.16 Fixed Assets Records**

The Council's records reflected assets balances as at 30 June 2013 totaling to Kshs.13,359,059 made up of Kshs.10,442,115 in respect to five (5) motor vehicles, two of which were grounded, one (1) motor cycle and Kshs.2,916,944 for computers, furniture & fittings. However, no valuation had been done and the balances were similar to those reported as at 30 June 2012. The fair values of

computers, furniture and office equipment as at 28 February 2013 also could not be ascertained.

### ***Recommendations***

***Valuation of the County's noncurrent assets should be carried out to obtain their fair values for reliable reporting. The assets register should also be updated regularly.***

### **3.17 Other Audit Findings**

#### **(i) Direct Spending of Revenue**

Examination of revenue records maintained by the defunct County Council of Moyale disclosed that in the months of January and February 2013, revenue totaling Kshs.4,568,848 was collected out of which Kshs.1,882,201 was spent directly before banking, contrary to financial regulations and procedures. The expenditures were incurred for the day to day running of Council activities and were not recorded in the cash book.

#### ***Recommendation***

***All revenue collected should be banked intact and expenditure incurred recorded in the cash book and properly accounted for.***

#### **(ii) LATF: Double Payment of Accrued Councillors Contributions to LAFUND**

The defunct County Council received Kshs.18,946,092 from Ministry of Finance as LATF disbursement on 22 February 2013. Audit examination of LATF payment

vouchers for the year 2012/ 2013 revealed that accrued Councilors' contribution for July 2012

-December 2012 amounting to Kshs.1,639,440 was apparently paid twice to Local Authority Provident Fund (LAPFUND) following a bank transfer of Kshs.1,639,440 done on 27 February 2013. This is because a similar amount for the said contributions was included among other payments made on 19 November 2012 vide cheque number 000884 of Kshs.4,300,000, and is supported by contributions schedules for July – December 2012.

***Recommendation***

***Reconciliation on the LAPFUND account should be undertaken to establish whether the Councilors' contributions for July – December 2012 was paid twice and so that a claim for a refund can be initiated.***

**(iii) Non-Submission of Financial Statements of Defunct County Council of Moyale**

The Marsabit County Government did not submit for audit financial statements of the defunct County Council of Moyale for eight (8) month period ended 28 February 2013 as had been instructed by Transition Authority vide circular referenced TA/7/(20) of 22 February, 2013. These financial statements should be submitted for audit without further delay to enable the County Government have confirmed closing balances to be reflected as opening balances in the books of account.

**(iv) Chief Officers sent on Compulsory Leave**

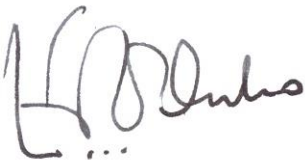
Scrutiny of employees' files of the defunct County Council of Moyale revealed that the Clerk and Treasurer of the defunct County Council were sent on compulsory with effect from 20 May 2013. This was occasioned by allegations that several payments were made by the officers on various dates but without sufficient supporting documentation. As at the time of completion of the audit in September 2013, no investigations had been initiated or carried out by the County Management to prove the allegations.

***Recommendation***

***The Interim County Secretary should justify the reasons of sending the Chief Officers on compulsory leave. Investigations should be carried out with a view to confirming whether funds were misappropriated or not, and also initiate recovery process.***

**3.18 Conclusion**

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



**Edward R. O. Ouko, CBS**  
**AUDITOR-GENERAL**

**05 December, 2013**