

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

REPORT

OF

THE AUDITOR–GENERAL

ON THE

FINANCIAL OPERATIONS

OF

THE COUNTY GOVERNMENT OF
KISII AND ITS DEFUNCT
LOCAL AUTHORITIES

FOR THE PERIOD
I JANUARY TO 30 JUNE 2013

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REPORT OF THE COUNTY GOVERNMENT OF KISII AND ITS DEFUNCT LOCAL AUTHORITIES FOR THE PERIOD 1 JANUARY TO 30 JUNE 2013

1.0 EXECUTIVE SUMMARY

1.1 Introduction

The Auditor-General has the mandate under Article 229 of the Constitution to audit and report on the accounts of the National and County Government s. Further, the County Government Act, 2012 Section 134 (1) repealed the Local Government Act, Cap 265, and thus effectively dissolving all the 175 Local Authorities and creating 47 County Government s.

According to Transition to Devolved Governments Act, 2012, after the General Elections on 4 March, 2013, the functions, assets, liabilities and staff of the former Local Authorities were to be taken over by the County Government s. 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 Government s.

1.2 Audit Objectives

The audit covered the transactions of County Executive and County Assembly and the former County Councils of Kisii Municipal Council, County Council of Gusii , County Council of Gucha , Town Council of Ogembo , Town Council of Nyamache, Town Council of Masimba, Town Council of Suneka, Town Council of Tabaka and County Council of Nyamarambe for the period 1 January to 30 June, 2013. The audit 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

The audit teams faced several constraints during the audits, including delay in obtaining requisite documentation and information in relation to the exercise and non-availability of key staff of the former Local Authorities. These constraints resulted in delay in concluding the audits within the planned timelines.

This summary of our findings should be read in conjunction with the full report.

1.3 Key Audit Findings and recommendations

1.3.1 Kisii County Executive and County Assembly

1.3.1.1 Current assets and liabilities

Cash and Bank Balance

Except for the Kisii Municipal Council bank accounts, the other bank accounts which were being operated by the defunct Local Authorities were closed between June, 2013 and August, 2013 in total disregard of the County Government's Public Finance Management Transition Act, 2013 which required that the bank accounts be closed and reconciliations done within three months with effect from 5 March, 2013. The County Government should put strict measures in place to enhance revenue collection.

1.3.1.2 Procurement of Goods and Services

i) Motor Vehicles

The Kisii County Executive acquired five new motor vehicles within the period under examination. However, ownership documents were not availed for audit review therefore ownership of the motor vehicles could not be verified. Ownership documents should be secured.

ii) Improper Maintenance of Motor Vehicle Records

Examination of motor vehicle records, payment vouchers and vote book revealed total fuel expenditure amounting to Kshs.4,947,448.20 against voted amount of Kshs.5,900,000.00. However, work tickets for eight vehicles described as serviceable and located at County Headquarters were not provided for audit verification. Amount of fuel drawn as per the supplier's statements should be reconciled with the figures on the motor vehicle work tickets.

iii) Payment Made to Government Printer

An amount of Kshs.809,100.00 was paid to the Government Printer vide Payment Voucher. No.270 of 21/06/2013 for purchase of accountable documents. However, the accountable documents had not been delivered as at the time of audit while no receipt from Government Printer was attached to the payment voucher to confirm receipt and accountability of this amount. The County Government should confirm delivery of the accountable documents and ensure that an official miscellaneous receipt is also provided for accountability.

iv) Expenditure for Preparation of Show Ground

During the period under review, an amount of Kshs.400,000.00 was paid to an officer vide payment voucher No. 829 of 30/6/13 in respect of preparation of the show

ground. Although a schedule of activities/ purchases to be made was attached to the payment voucher, there was no evidence that any activities/purchases were ever done since no cash sale receipts were attached to confirm and account for the expenditure incurred. The County Government should also ensure that all payment vouchers are properly documented for accountability purposes

1.3.1.3 Payroll Irregularities

Kisii County Government payrolls for the months of May and June 2013 contained 58 names of staff irregularly employed by the defunct Local Authorities of Gucha, Ogembo and Nyamarambe in addition to the 120 casual workers who draw a total monthly salary of Kshs.636,000.00 . The County Government should carry out job evaluation and placement together with staff reorganization to establish the right personnel in order to carry out its mandate in an effective and efficient manner.

1.3.1.4 County Revenue

Between March, 2013 and June, 2013 the defunct Local Authorities realized Kshs.77,651,895.00 being 75% of the total budgeted revenue. No explanation was provided for the under collection. Most of these funds were spent at the Sub-Counties/Councils and were not banked into the revenue collection account and eventually not swept periodically to the County Revenue Account at the Central Bank of Kenya.

1.3.2 COUNTY ASSEMBLY OF KISII

1.3.2.1 Procurement for Goods and Services

i) Unsupported/Irregular Payments

Examination of County Assembly payments vouchers and payments cash book revealed that payments amounting to Kshs.5,875,500.00 were not supported by relevant documents especially invoices and receipts. The payment vouchers were made in the name of the Assembly Accountant including some payments for training services which should be made directly to the training institutions. Further, transactions in relation to a payment of Kshs.5,200,000.00 to a furniture supplier could not be verified as the relevant supporting payment voucher was not availed for audit. The Council should confirm whether the said payments were a proper charge to public funds.

ii) Procurement of Hansard

The County Assembly procured the Hansard at Kshs.8,934,500.00 using direct procurement. Installation had not yet been done in the chambers as at the time of completing the audit on 12 September, 2013. This is against the provisions of the

Public Procurement and Disposal Act 2005 and Procurement and Disposal Regulations 2006 to ensure competitiveness and promote integrity and fairness.

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.

1.3.2.2 Un-Surrendered Imprest

During the period January to June 2013, the County Government issued a total of Kshs.14,202,850.00 in imposts to various officers and County Representatives. The Imprests were not supported by way of receipts, travel documents and invitation letters. Furthermore, the Council did not maintain an imposts register as a control for imposts. Effort should be made to get the Imprests accounted for or recovered.

1.3.2.3 Double Payment of Transport Allowance

Examination of payment vouchers Nos. 442, 445 and 458 in respect of travelling allowance revealed that County Assembly members attended a budget caucusing retreat for seven days consecutively in Kisumu from 26 June, 2013 to 2 July, 2013. However the members were again paid transport allowance on 29 June, 2013 and 1 July, 2013 for travelling to Kisumu again leading to double payment amounting to Kshs.351, 000.00. The County Government should make recoveries of the double payments of transport allowance of Kshs.351,000.00.

1.3.3 DEFUNCT MUNICIPAL COUNCIL OF KISII

1.3.3.1 Current Assets and Liabilities

i) Closure of Bank Accounts

Examination of revenue records namely the counterfoil receipt book register (CRBR), revenue books, revenue control sheets, cashier's Miscellaneous Receipt (MRs), receipt cashbook, bank statements and bank pay-in-slips revealed that the Municipal Council of Kisii bank accounts with Co-operative Bank-Kisii were closed on 21 August, 2013 long after the deadline. The account in Family Bank had not been closed as at the date of this report in total disregard of the County Government's Public Finance Management Transition Act, 2013 which required that the bank accounts be closed and reconciliations done within three months with effect from 5 March, 2013. The management should comply with the law in future.

ii) Revenue Banking

The Council did not bank money in the County Revenue Account No.114075859 at Kenya Commercial Bank-Kisii until the Municipal accounts were closed on 21 August, 2013 when Kshs.775,217.90 was transferred to Kenya Commercial Bank. Internal controls should be strengthened in future to avoid possible loss of revenue.

iii) Local Authority Transfer Funds (LATF) and other Revenue Banking

The revenue realized and sourced from LATF in January 2013 as captured in the receipts cashbook and income ledgers revealed total collections of Kshs.143,487,782.00 while analysis bankings from bank statements revealed a banking of Kshs.125,756,690.00 resulting in an under banking of Kshs.17,731,092.00. Although the management confirmed that through internal mechanisms, they had noted that not all revenue was banked intact, proper systems should be put in place to ensure that all revenue collections are banked intact.

iv) Creditors

The defunct Council submitted to the County Government an amount of Kshs.661,687,184.35. However, included in the creditors list is the staff listing of Kshs.29,158,748.00 which was not properly updated. No invoices and statements of accounts were availed to support the balances for statutory creditors and other suppliers of goods and services. The County Government management should maintain the necessary supporting documentation for the creditors' balances.

1.3.3.2 Non- Current Assets

Motor Vehicle/ Log Books

Examination of motor vehicle records revealed that the Council has seven (7) grounded vehicles and eleven (11) vehicles which are in good condition. Physical verifications revealed that the grounded vehicles are stored adjacent to the main building and also in an open place which makes them prone to heavy wear and tear due to heavy rain and exposure to the sun. Management should dispose the grounded vehicles to avoid further deterioration and loss of disposal value.

1.3.3.3 Procurement of Goods and Services

i) Local Authorities Transfer Fund(LATF) Expenditure

The Council received in her LATF Account No.01120017887102-Cooperative Bank of Kenya, Kisii Branch, an amount of Ksh.54, 411,013.00 in respect of LATF on 22 February, 2013. It was noted that although this money was to be spent on items approved in the budget (i.e. various capital projects worth Kshs.26, 012,620.00), the Council did not undertake any capital projects. The County Government also did not prepare supplementary budget for approval of the funds meant for capital projects to be utilized for other purposes. Funds should be used for the designated purposes.

ii) Unauthorized reallocation of funds

It was noted that on 22 February, 2013 amounts of Kshs.48,500,000.00 and Kshs.4,500,000.00 were transferred to Salaries account No.01120017887100, Co-operative Bank of Kenya Kisii Branch. No Council minutes and resolutions were availed to support the transfers and also show the nature or schedule of expenditure

to be incurred. Management should obtain the relevant documentation in relation to the above transactions.

iii) Payments made for Legal, Consultancy & Insurance Services

The Council, on various dates, made payments of Kshs.4,000,000.00 to a legal firm, Kshs.4,700,000.00 to a consultancy firm, and Kshs.4,000,000.00 to an insurance services company but relevant supporting documents were not made available for audit review. The County Government should ensure that the payment vouchers have the relevant supporting documentation.

iv) Payment of Staff Salary Arrears

During the period under review, the Council paid staff salary arrears amounting to Kshs.7,404,191.00. However payment vouchers were not supported while salary arrears register and ledgers were not maintained. Further the Council in her schedule of assets and liabilities indicated outstanding salary arrears of Kshs.29,158,748.00.

Management should ensure that the payment vouchers have the relevant supporting documentation. In addition, they should be posted to all the relevant records and captured in the Accounting system.

1.3.4 DEFUNCT COUNTY COUNCIL OF GUSII

1.3.4.1 Current Assets and Liabilities

i) Bank Accounts

The County Council of Gusii accounts with Family Bank-Kisii were closed on 18 June, 2013. This was a contravention of the County Governments Public Finance Management Transition Act, 2013 which required that the bank accounts be closed and reconciliations done within three months with effect from 5 March, 2013. The management should comply with the law in future

ii) Creditors

The Council in her schedule of liabilities submitted to the County Government reflected an amount of Kshs.63, 804,874.00 as at 19 March, 2013. However the Council did not maintain creditor's ledger to support the said balances. The creditors' balances should be confirmed independently before effecting any payments.

iii) Debtors

The Council reflected an amount of Kshs.21,550,376.00 in respect of outstanding debtors (i.e. Kshs.20, 620,376.00 for plot rent and Kshs.929,900.00 for house rent). However, the Council did not maintain the necessary ledgers to help ascertain the debtors movements during the year and the balances. Debt collection policy should be put in place to facilitate collection of County debts as and when they fall due.

1.3.4.2 Procurement of Goods and Services

i) LATF Expenditure

The Council received Ksh.51, 644,848.00 in respect of LATF on 22 February, 2013. On examination of the relevant records it was noted that Kshs.13, 000,000.00, Kshs.5, 000,000.00 and Kshs.7, 000,000.00 were transferred on 27 February, 2013 to salaries account, PRF II and PRF I accounts respectively. However, no Council minutes and resolutions were availed to authenticate the transfers and also show the nature or schedule of expenditure to be incurred. The minutes and schedules are maintained in future.

ii) Unsupported Payments

Payments worth Kshs.8,821,135.00 were made to various suppliers of goods and services during the period under review. However, the Payment vouchers lacked the supporting documentations such as invoices and receipts that would indicate services rendered. The County should ensure that the payment vouchers have the relevant supporting documentation

iii) Legal Fee Expenses

The Council on various dates made payments in respect of legal fees totaling to Kshs.1,308,300.00. However, payment vouchers lacked the supporting documentations such as invoices/fee notes and receipts that would indicate services rendered. The County should ensure that the payment vouchers have the relevant supporting documentation and posted to all the relevant records.

iv) Payment for Insurance Services

The Council paid an Insurance brokerage firm an amount of Kshs.585,583.00 but payment vouchers lacked the supporting documentations such as invoices and receipts for accountability purposes. The County Government should ensure that the payment vouchers have the relevant supporting documentation.

1.3.4.3 Non- Current Assets

Motor Vehicles

The Council has eleven (11) grounded vehicles of which three (3) are in serviceable condition and eight (8) are unserviceable. The grounded vehicles were not properly stored as they are lying in the compound of the Council which is currently occupied by the County Government. The eight (8) grounded vehicles should be disposed.

1.3.4.4 Power Disconnection

As at the time of the Audit, the County Government was running a diesel generator to light the County Headquarters thereby incurring a cost of approximately Kshs.10,000.00 per week which will drain the County resources in the long run.

Examination of the electricity bill documents revealed that Kenya Power and Lighting Company demands Ksh.519,570.81 in respect of accumulated bills for account number 545803-01 for the power used by Community Training Centre-a property of County Council of Gusii. In July 2013, Kenya Power disconnected electricity for County Council of Gusii headquarters due to unpaid accumulated bills of Ksh.519,570.81.

The County Government should initiate negotiations with Kenya Power with a view of settling the outstanding debts and resumption of power.

1.3.4.5 Personnel and Establishments - Irregular payment

An amount of Kshs.448,613.00 was paid to the former County Clerk in lieu of accumulated leave days totaling to 160 days. The payment was neither supported, authorized, nor taxed. Appropriate recoveries should be made.

1.3.5 DEFUNCT TOWN COUNCIL OF SUNEKA

1.3.5.1 Current Assets and Liabilities

i) Bank Accounts

The account in Barclays Bank had not been closed as at time of Audit. This was in contravention of the County Government's Public Finance Management Transition Act, 2013 which required that the bank accounts be closed and reconciliations done within three months with effect from 5 March, 2013. The management should comply with the law in future.

ii) Revenue Collections and Banking

The revenue realized was Kshs.6,499,701.00 while an analysis of banking from bank statements revealed a banking of Kshs.5,298,782.00 thus an under banking of Kshs.1,200,919.00. Internal controls should be strengthened in future to avoid possible loss of revenue.

iii) Creditors

The Council in her schedule of liabilities indicated a total of Kshs.54,245,799.00 on various items. However, ledgers were not maintained to support the balances. The County Government should maintain relevant records to support the creditors' balances.

1.3.5.2 Procurement of Goods and Services

i) LATF Expenditure

The Council received in her LATF Account an amount of Ksh.10,579,369.00 in respect of LATF on 22/2/2013. Although this amount was to be spent on items approved in the budget (i.e. various capital projects worth Kshs.4,374,481), the Council did not undertake any capital project.

The Council did not prepare supplementary budget for approval of the funds meant for capital projects to be utilized for other purposes. The County Government should undertake the projects as per the approved estimates in future.

ii) Unsupported Payment Vouchers

Payment worth Kshs.180,000.00 were made to various suppliers of goods and services during the period under review. However, the Payment vouchers lacked the supporting documentations such as invoices and receipts that would account for the same. The County Government should ensure that the payment vouchers have the relevant supporting documentations and confirm the authenticity of the payments.

iii) Imprest/Per Diem Allowances not Accounted for

During the period under review, the Council paid her staff an amount of Kshs.298,000.00 in respect of Per Diem/Night outs but did not have supporting documentation for accountability. In addition the Council did not maintain an imprest register to record the same. The concerned Officers should account for the imprest or recoveries be made.

1.3.6 DEFUNCT TOWN COUNCIL OF TABAKA

1.3.6.1 Current Assets and Liabilities

i) Bank Account

The Council's accounts with Kenya Commercial Bank-Kisii had not been closed due to outstanding unpaid overdraft facility of Kshs.11, 943,082.15, in total disregard of the County Government's Public Finance Management Transition Act, 2013 which required that the bank accounts be closed and reconciliations done within three months with effect from 5 March, 2013. The management should comply with the law in future.

ii) Debtors

The Council in her schedule of current assets reflected an amount of Kshs.1,143,331.00 in respect of plot rent debtors. However, the Council did not provide a schedule and a ledger to support the balance. Appropriate systems for recording debtors by the County Government should be developed to ensure accuracy of records. Debt collection policy should be put in place to facilitate collection of County debts as and when they fall due.

iii) Creditors

The Council's liabilities were Kshs.34,658,076.00 but the Council did not maintain a creditors ledger to support the balances. Kshs.14, 624,558.00 for salary arrears was not in agreement with the schedule which indicated Kshs.23,981,233.15 resulting in variance of Kshs.9,356,675.15. Further a KCB Overdraft was reflected as Kshs.11,049,943.00 while the bank statement account No. 1101995742 Kenya Commercial Bank Kisii branch, indicated Kshs.11,943,082.15 resulting in an unexplained variance of Kshs.893, 139.15. This overdraft remained unsettled as at the time of audit. The creditors should be promptly recorded in a ledger indicating particulars of each creditor and the same updated on a regular basis. The correct bank overdraft balance should be confirmed to avoid overpayment to the bank.

iv) Revenue Collections and Banking

The revenue collected was Kshs.555,850.00 while an analysis of the bank statements revealed a banking of Kshs.397,490.00 thus an under banking of Kshs.158,360.00. Internal controls should be strengthened in future to avoid possible loss of revenue.

1.3.7 DEFUNCT TOWN COUNCIL OF MASIMBA

1.3.7.1 Current Assets and Liabilities

i) Debtors and Receivables

The Council's debtors and receivables stood at Kshs.1,436,685.00. However, the Council did not avail schedules, demand notices and ledgers showing the composition of debtors. Appropriate systems for recording debtors by the County Government should be developed to ensure accuracy or records. Debt collection policy should be put in place to facilitate collection of County debts as and when they fall due.

ii) Revenue Collection

The defunct Town Council of Masimba went on uninterrupted with revenue collections using the existing revenue receipts as advised. During the period under consideration, a comparison receipt cash book, deposit slip, cashiers miscellaneous

receipts and bank statements revealed that the Council collected Kshs.2,400,205.00 and banked Kshs.1,327,347.00 leading to a net under banking of Kshs.1,072,347.00. Although the management confirmed that through internal mechanisms, they had noted that not all revenue was banked intact, proper systems should be put in place to ensure that all revenue collections are banked intact.

1.3.7.2 Handing Over Documents for Assets and Liabilities

The County Government of Kisii had not officially taken over the assets and liabilities of the former Town Council of Masimba as at the time of audit conclusion on 12 September, 2013, contrary to instructions issued by the Ministry of Local Government vide Circular No. MLG/1333/TY/52 of 18th February, 2013. Arrangements should be made by the Transition Authority to have assets and liabilities of the former County Council handed over to the County Government.

1.3.7.3 Staff Salary and Councillors' Allowance Arrears

Kisii County took over unpaid salary arrears amounting to Kshs.35,931,099 some of which date as far back as year 2001. Arrears of Councillors' remuneration as at the same date stood at Kshs.2,356,930. Outstanding Travelling and Subsistence allowances for Staff and Councillors amounted to Kshs.1,083,000 and Kshs.737,000 respectively. The balances should be properly verified to avoid settling nonexistent debts.

1.3.8 DEFUNCT COUNTY COUNCIL OF GUCHA

1.3.8.1 Current Assets and Liabilities

i) Cash and Bank Balances

All the bank accounts remained operational as shown by the bank statement even long after the Council became defunct. Bank certificates were not availed hence the accuracy and correctness of balances could not be ascertained. Payments made from the LATF account were not supported and it could not therefore be confirmed if the services paid for were delivered. The management should comply with financial regulations which require that payments are fully supported.

ii) Revenue Collection and Banking

Examination of revenue records, namely, receipts cash books, bank statements and revenue receipt books for the period January to June 2013 revealed that the Council did not bank revenue intact. The management confirmed that through internal mechanisms, they had noted that not all revenue was banked intact. Proper systems should be put in place to ensure that all revenue collections are banked intact.

iii) Debtors/Receivables

The Council did not avail an authentic list of Council debtors submitted to the Transition Authority. The financial statements as at 30 June, 2013 revealed a debtors total balance of Kshs.9,438,836.00. Appropriate systems for recording debtors by the County Government should be developed to ensure accuracy of records. A debt collection policy should be put in place to facilitate collection of County debts as and when they fall due.

1.3.8.2 Procurement of Goods and Services

i) Expenditure on LASDAP projects

The Council received its second LATF allocation of Kshs.58,63,126.00 on 22 February, 2013. Examination of sampled payment vouchers amounting to Kshs.4,014,000 revealed that payments in respect of project implementation were not adequately supported with Local Service Orders and invoices. Verification of works at Nyacheki Market revealed that although the road was opened, the drainage constructed at a cost of Kshs.1,160,000.00, had no evidence of watering and compacting having been done. Verification works at Itumbe market where road works were done at a cost of Kshs.1,529,135.20 showed there was no compaction. The County Government should in future ensure that payment is only made on the strength of a certificate of completion.

ii) Road Works

Amount due to contractors amounting to Kshs.9,471,027 for various contracts for road works could not be verified as no certificates for work done were availed for audit verification. The work done by contractors in future should be verified and certified before any payment is made to the contractors.

1.3.8.3 Non- Current Assets

Motor Vehicles

The Council did not avail for audit logbooks for three motor vehicles hence ownership could not be confirmed. The County should secure ownership documents

1.3.8.4 Payroll and Establishment

i) Salary Arrears

The Council had records showing salary arrears amounting to Ksh.15,993,330.00. The salary arrears register was not updated hence the accuracy and correctness of salary arrears could not be verified. The management should update salary arrears register.

ii) Non-remittance of Statutory Deductions

It was observed that the Council had outstanding statutory deductions of Kshs.6,438,229.00, Kshs.88,320.00, Kshs.621,292.00 and Kshs.3,075,055.00 in respect of Lapfund, National Hospital Insurance Fund, National Social Security Fund and Kenya Revenue Authority respectively. These should be paid promptly to avoid interest and penalties.

iii) Un-authorized Implementation of Collective Bargaining Agreement (C.B.A) of Sept 2012

During the month of April 2013 the Council implemented new salaries as contained in the Collective Bargaining Agreement (CBA) of 2012 without seeking Ministerial authority. This implementation of C.B.A increased the Council's monthly gross wage bill by Kshs.2,188,392 per month. Since this C.B.A implementation takes effect from 1 September, 2012 the resulting gross arrears amounts to Kshs.15,318,744.00. The unauthorized implementation of new salaries should be investigated and responsible officers held accountable.

1.3.9 DEFUNCT TOWN COUNCIL OF NYAMARAMBE

1.3.9.1 Current Assets and Liabilities

i) Revenue Collection and Banking

Examination of revenue records namely receipts, cash books, bank statements and revenue receipt books for the period January to June 2013 revealed that the Council did not bank revenue intact as required. Further, the Council had spent Kshs.657,730.00 directly from revenue before banking, having collected Kshs.3,667,289.00 and banked Kshs.3,009,559.00. Although the management confirmed that through internal mechanisms, they had noted that not all revenue was banked intact. Proper systems should be put in place to ensure that all revenue collections are banked intact.

ii) Debtors/Receivables

The Council did not include outstanding plot rent amounting to Kshs.1,324,166.00 in the list of assets submitted to the Transition Authority. Schedules for Nyakembene and Mong'ane markets were not availed for verification and therefore the outstanding balance in these markets were not included in the debtors figure. 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' balance of Kshs.5,222,912.00 submitted to the Transitional Authority could not be verified for correctness and accuracy. Written Agreements, and supported vouchers were not availed for audit verification. The creditors should be promptly recorded in a ledger indicating particulars of each creditor and the same updated on a regular basis.

iv) Cash and Bank Balances-Bank Overdraft

Review of bank statements revealed that the town Council took two overdrafts of Kshs.1,000,000.00 and Kshs.10,000,000.00. However the management has not provided the supporting documents so the authority to arrange for the overdrafts could not be verified. The documents should be produced for verification. The County Government should in future maintain the documents supporting overdraft facilities.

1.3.9.2 Non- Current Assets

Motor Vehicles & Furniture

The Council has one vehicle KAL 404 which is grounded. Ownership documents were not availed for verification. The County Government should ensure that the motor vehicle is repaired to enable value addition and logbook should be availed.

1.3.9.3 Salary Arrears

The Council records showed salary arrears amounting to Ksh.22,684,721.00. The salary arrears register was not updated hence the salary arrears balance could not be verified. The register should be brought up to date and the correct balance of the salary arrears determined.

1.3.9.4 Labor Based Contract

The Council is using a labor based contract to construct the Town Hall and has spent Kshs.2,436,650. However, the Council did not provide certificates and record of work done. The materials were also procured directly without compliance to the Public Procurement and Disposal Act 2005 and Public Procurement and Disposal Regulations, 2006. The amount paid for work done could not be confirmed. The County Government should adhere to proper procurement procedures.

1.3.10 DEFUNCT TOWN COUNCIL OF NYAMACHE

1.3.10.1 Current Assets and Liabilities

i) Cash and Bank Balances

All the bank accounts remained operational as per the bank statement even long after the Council became defunct. This was a contravention of the County Governments

Public Finance Management Transition Act, 2013 which required that the bank accounts be closed and reconciliations done within three months with effect from 5 March 2013. Bank certificates and Bank reconciliations were not availed hence the accuracy and correctness of balances could not be ascertained. The County Management should obtain the Bank Certificates and have reconciliations done to confirm the correct cash and bank balances.

ii) Revenue Collection and Banking

Examination of revenue records namely receipts, cash books, bank statements and revenue receipt books for the period January to June 2013 revealed that the Council did not bank its revenue intact as required. It was observed that the Council realized revenue amounting to Kshs.1,956,762.00 but only banked Kshs.1,117,308.00 and incurred an expenditure of Kshs.839,454.00 directly from revenue before banking. The management confirmed that through internal mechanisms, they had noted that not all revenue was banked intact. Proper systems should be put in place to ensure that all revenue collections are banked intact.

iii) Debtors/Receivables

The Council did not avail an authentic list of Council debtors submitted to the Transition Authority for audit verification. Scrutiny of plot rent details and amount outstanding notice dated 16 May, 2012 revealed an outstanding balance of Ksh.2,003,670.00.

Appropriate systems for recording debtors by the County Government should be developed to ensure accuracy of records. A debt collection policy should be put in place to facilitate collection of County debts as and when they fall due.

iv) Creditors

Scrutiny of the Council's list of liabilities submitted to the Transition Authority revealed a creditors balance of Kshs.5,536,757.00 but this could not be confirmed as no ledger was maintained. The creditors should be promptly recorded in a ledger indicating particulars of each creditor and the same updated on a regular basis.

1.3.10.2 Non- Current Assets

Motor Vehicles & Furniture

Motor vehicle log books were availed but the Nissan KAM 845 was not physically verified as the vehicle was not at the premises at the time of audit. The County Government should confirm the existence of the vehicle.

1.3.11 DEFUNCT TOWN COUNCIL OF OGEMBO

1.3.11.1 Current Assets and Liabilities

i) Cash and Bank Balances

All the bank accounts remained operational as per the bank statement even long after the Council became defunct. This was a contravention of the County Government's Public Finance Management Transition Act, 2013 which required that the bank accounts be closed and reconciliations done within three months with effect from 5 March, 2013.

Bank certificates and reconciliations were not availed hence the accuracy and correctness of balances could not be ascertained.

Payments made from the LATF account were not supported and therefore could not be confirmed. The County must ensure strong controls over cash and bank by maintaining updated cash book and reconciliation statements.

ii) Revenue Collection and Banking

Examination of revenue records namely receipts, cash books, bank statements and revenue receipt books for the period January to June 2013 revealed that the Council did not bank her revenue intact as required in total disregard of the County Government's Public Finance Management Transition Act, 2013. The Council realized revenue amounting to Kshs.5,101,682.00 but only banked Kshs.4,020,124.00 which was an under banking of Kshs.1,081,558.00. During the same period the Council out of the un banked revenue, made payments amounting to Ksh.671,459.00 leaving an un explained variance of Kshs.410,099.00. Examination of payment vouchers in respect of this direct expenditure revealed that the vouchers lacked PV numbers, authorization signatures and vote book certificates. The management should reconcile the variance and confirm the propriety of the expenditure which was not properly authorized.

iii) Debtors/Receivables

A review of the Council debtors' records revealed that the Council did not avail an authentic list of Council debtors submitted to the Transition Authority for audit verification. However, scrutiny of outstanding plot rent schedules as at 30 June, 2013 revealed a debtors total balance of Kshs.1,498,035.00. Appropriate systems for recording debtors by the County Government should be developed to ensure accuracy or records. A debt collection policy should be put in place to facilitate collection of County debts as and when they fall due.

iv) Creditors

The creditors' balance of Kshs.1,725,085 submitted to the Transition Authority could not be verified for correctness and accuracy as written agreements and supported vouchers were not availed for audit verification. The creditors should be promptly

recorded in a ledger indicating particulars of each creditor and the same updated on a regular basis.

v) Bank Overdraft

The audit revealed that the Council took an overdraft of Kshs.4,500,000 which was settled from LATF account. However the Council did not provide for audit review the necessary support documents.

1.3.11.2 Non- Current Assets

Motor Vehicles & Furniture

The fixed asset valuation report was not availed to confirm the asset values. During the verification of motor vehicles it was noted that two log books had been deposited in the bank as bank loan guarantee and therefore ownership could not be ascertained.

1.3.12 Information Systems assessment

Hardware

The County received nineteen (19) computers and (19) UPS from The National Treasury (IFMIS Department) which was solely to be used for IFMIS, two (2) computers from CBK for G-Pay and six (6) modems.

1.3.12.1 Implementation Status of Integrated Financial Management Information System (IFMIS) and G-Pay

As at the time of conclusion of the audit on 12 September, 2013, the IFMIS installed at the County was not operational. Although the National Treasury had provided necessary machines for full implementation of the system, there was no connectivity to the internet. The staff at the Treasury who had been trained on the system could not use it due to lack of internet connectivity. Meanwhile, all payments are currently being done manually by use of cheques, a system which the Government intended to abolish by adopting IFMIS and G-Pay system. It is important that action is taken to address the connectivity problem which is hindering usage of the two systems, and which if fully implemented will improve financial management within the County.

1.3.12.2 Local Authority Integrated Financial Operations Management System (LAIFOMS)

LAIFOMS was installed in the Kisii Municipal Council and Gusii County Council while all the other Sub-Counties' revenue collection process was manual.

Beginning 1 July, 2013 the Budget was prepared through IFMIS deactivating the Expenditure Module in LAIFOMS.

A review of the system at the Municipal Council of Kisii revealed that there was an under banking of Kshs.53,761,378.00 between the period 1 July 2012 and 9

September, 2013. The explanation given during the exit meeting was that the banking was done but the deposit slips were not captured in the system.

The review at the data from the County Council of Kisii revealed that there was a total of Kshs.6,970,418 daily receipts for the period 1 July, 2012 to 30 June, 2013 but no banking had been captured into the LAIFOM system.

1.3.12.3 Integrated Payroll and Personnel Database (IPPD)

The County started the first payroll on July, 2013 and adequate training had been offered to IPPD users. The data analysis for the month of September revealed that there are system users who had conflicting rights and privileges, such that an officer could initiate a transaction in terms of employing, process the payroll and execute the payment. This constitutes lack of segregation of duties in the management of the IPPD system.

The system also lacks various checks which includes completeness checks, duplicity checks and range checks. Due to lack of these controls, the following anomalies were revealed:

- i. Two officers sharing one bank account
- ii. Two officers with wrong ID numbers
- iii. Nineteen officers with wrong tax PINs
- iv. Fourteen officers with wrong bank account numbers
- v. Four officers with no designation code
- vi. Ten officers employed while underage
- vii. Date of posting was before date of hiring for 15 officers
- viii. Five officers with wrong end date

1.3.12.4 IT Control Environment and ICT Governance

The IT section had five (5) personnel but there were no defined roles and responsibilities on how to oversee the IT operations hence there was no clear segregation of duties.

The staff had relevant knowledge and skills in the IT field but they had not been trained on the use of LAIFOMs, IPPD and IFMIS to enable them offer adequate support to the system users.

The County management is yet to develop and implement some of the key ICT documents including ICT Strategic Plan, the ICT assets register, Business Continuity Policies (BCP) and Disaster Recovery Plans (DRP). There was no ICT Steering

Committee in place and the ICT policies and procedures in place had not been approved.

The IPPD and G-PAY servers are located in the Human Resource office and Accounts office respectively where accessibility is not restricted with adequate physical access controls.

IT staff should be adequately trained to support the Information Systems in place. Duties should be defined and segregated. The County Management should hasten the development and implementation of ICT policy document.

1.4 Conclusion

The foregoing observations clearly indicate that the process of taking over of assets and liabilities, including staff of the former Councils was not properly handled due to apparent lack of leadership by officials of the 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 PFA Act 2012. Expenditure should be incurred in accordance with the requirements of the Public Finance Management Act 2012 and for the benefit of the taxpayers.

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



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

12 March, 2014

DETAILED AUDIT REPORT OF THE AUDITOR-GENERAL ON OPERATIONS OF COUNTY GOVERNMENT OF KISII AND THE DEFUNCT LOCAL AUTHORITIES FOR THE PERIOD 1 JANUARY TO 30 JUNE 2013

1.0 MAIN REPORT

1.1 Introduction

The County Government of Kisii, took over nine defunct Local Authorities namely Municipal Council of Kisii, County Council of Gusii, County Council of Gucha , Town Council of Ogembo , Town Council of Nyamache, Town Council of Masimba, Town Council of Suneka, Town Council of Tabaka and County Council of Nyamarambe following the General Election on 4 March, 2013. The County Government was established to carry out the devolved functions to the County.

The objective of the special audit exercise was to verify County Government preparedness to receive and utilize devolved funds before, during and after the transition period.

1.2 Terms of Reference

The Office of the Auditor-General has the mandate under Section 229 of the Constitution (Article 229) to audit the accounts of the National and County Governments. In this regard the Office planned an audit for the Kisii County with the following terms of reference:

- Verification of cash and bank transactions held in various different accounts in the defunct Local Authorities during the period of transition between 5 March and 30 June, 2013.
- Examination of transactions of defunct Local Authorities between 1 January 2013 and 30 June 2013.
- Examination of transactions of the County Government and County Assembly between 5 March and 30 June, 2013.
- Check the closure of bank accounts as directed by Transitional Authority.
- Check procurement procedures as per procurement Act 2005 & 2006.
- Check current debtors and suppliers balances.
- Implementation of the IFMIS and G-Pay as opposed to manual system.
- Check the status and usage of the Motor vehicles and equipments.
- Confirm whether County bank accounts were opened on 04 March 2013.
- IPPD Payrolls – Check for Ghost workers in payroll.

- Irregular borrowings, overdrafts and payment of non-existing loans.

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

1.3 Methodology

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

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

2.0 DETAILED FINDINGS

2.1 COUNTY GOVERNMENT OF KISII

2.1.1 County Revenue

The defunct nine (9) Local Authorities realized 75% of the total budgeted revenue between March 2013 and June 2013. No explanation was provided for the variance.

For the period March 2013 to June 2013, the defunct Local Authorities were able to collect a total of kshs.77, 651,895.00 as local revenue. Most of these funds were spent at the sub-counties/Councils and were not banked into the revenue collection account and eventually not swept periodically to the County Revenue Account at the Central Bank of Kenya. The Councils did not comply with the law regarding banking of revenue collected locally and transferred to single account at the Central Bank of Kenya as envisioned in the Public Financial Management Act 2012.

Except for the Kisii Municipal Council bank accounts, the other bank accounts which were being operated by the defunct Local Authorities were closed between June 2013 and August 2013 while County Council of Gusii-Barclays bank Cess Account had not been closed as at the date of this audit.

Recommendations

The County Government should put strict measures in place to enhance revenue collection.

2.2 Irregular payment for Installation of IFMIS and G-Pay Systems

Examination of payment vouchers disclosed that the County Government had paid Kshs.1,500,000.00 to an ICT technology firm via Payment Voucher number 1078 dated 30/6/2013 for migrating of LAIFOMS to County Integrated Financial Management Systems (IFMIS) for the whole County . The installation of IFMIS was done solely by the National Treasury and no payment was required.

Recommendation

The County Government should ensure that the amount paid is recovered in full.

2.3 Motor Vehicles

The Kisii County Executive acquired new motor vehicles within the period under examination. However, ownership documents were not availed for audit review therefore ownership of the motor vehicles could not be verified.

REG.	MAKE	ITEM
GK B 366D	NISSAN XTRAIL	Log book not availed
KBU 633T	MITSUBISHI PAJERO	Log book not availed
GK A 200L	MERCEDES BENZ	Log book not availed
GK B 411C	MITSUBISH PAJERO	Log book not availed

Recommendations

Ownership documents should be availed for verification and confirmation of ownership.

2.4 Payment made to Government Printer

The County Executive paid Kshs.809,100.00 to the Government Printer vide Payment Voucher number 270 of 21 June 2013. The payment was in respect of purchase of accountable documents. However,

- i. The accountable documents had not been delivered as at the time of audit.
- ii. No Receipt from the Government Printer was attached to the payment voucher to confirm receipt and accountability of this amount.

Recommendation

The County Government should confirm delivery of the accountable documents and that an official miscellaneous receipt is also provided for accountability.

2.5 Expenditure on Preparation of Show Ground

During the period under review, an amount of Kshs.400,000.00 was paid to an officer vide payment voucher No. 829 of 30/6/13 in respect of preparation of the show ground. Although a schedule of activities/ purchases to be made was attached to the payment voucher, there was no evidence that any activities/purchases were ever done since no cash sale receipt was attached to confirm and account for the expenditure incurred.

Recommendation

The payee should be called upon to account for the same or otherwise recoveries should be made from him. The County Government should also ensure that all payment vouchers are properly documented for accountability purposes.

2.6 Missing Payment Vouchers

Payment vouchers worth Kshs.3,023,720.00 were missing and were therefore not examined as at the time of audit. The money was paid from the Kisii County Treasury.

Recommendation

The said payment vouchers should be availed for examination to confirm their accountability. In addition, the management should ensure that payment vouchers are properly filed per item for ease of examination.

2.7 Payroll Irregularities

The County Government of Kisii integrated payrolls for the months of May and June 2013 included names of 58 officers recruited irregularly by the defunct Councils. Further, 120 casual workers whose total monthly salary is Kshs. 636,000.00 were incorporated in the payroll.

Recommendations

The County Government should carry out job evaluation and placement together with staff reorganization to establish the right personnel in order to carry out its mandate in an effective and efficient manner.

2.8 Improper Maintenance of Motor Vehicle Records

Examination of motor vehicle records, payment vouchers and vote book revealed total fuel expenditure amounting to Kshs.4,947,448.20 against voted amount of Kshs.5,900,000.00. Work tickets for eight vehicles described as serviceable and located at County Headquarters were not provided for audit verification:

Recommendations

- i. Fuel drawn should be entered on motor vehicle work tickets for proper monitoring of fuel consumption.
- ii. Amount of fuel drawn as per the suppliers' statements should be reconciled with the figures on the motor vehicle work tickets.

3.0 COUNTY ASSEMBLY OF KISII

3.1 Unsupported/Irregular Payments

Examination of County Assembly payments vouchers and payments cash book revealed that payments amounting to Kshs.5,875,500.00 paid through the Assembly accountant were not supported by relevant documents particularly invoices and receipts. Further, included in the unsupported payments of Kshs.5,875,500.00 is Kshs.5,200,000.00 paid to a furniture supplier which could not be verified as the respective payment voucher was not availed for audit.

Recommendations

- i. All County expenditure should be supported by official documents to support the propriety of the said payments.
- ii. The Council should verify to determine whether the said payments were genuine or fraudulent and take appropriate action.

3.2 Un-Surrendered Imprest

During the period January to June 2013, the County Government issued imprests to various officers and County representatives totaling to Kshs.14,202,850.00 which were not supported by way of receipts, travel documents and invitation letters. Furthermore, the Council did not maintain an imprests register as a control for imprests.

Recommendation

The County management should follow up on surrender of the imprests or institute recovery from the affected officers.

3.3 Double Payment of Transport Allowance

Examination of payment vouchers PV No 442, 445 and 458 in respect of travelling allowance revealed that County Assembly members attended a budget caucusing retreat for seven days consecutively in Kisumu from 26 June, 2013 to 2 July, 2013. However the members were again paid transport allowance on 29 June, 2013 and 1 July, 2013 for travelling to Kisumu, leading to double payment amounting to Kshs.351,000.00

Recommendation

The County Government should make recoveries of the double payments of transport allowance of Kshs.351,000.00.

3.4 Procurement of Hansard

The County Assembly procured a Hansard using direct procurement from New links technologies at Kshs.8,934,500.00. From our examination the said Hansard had not been installed in the chambers as at the time of Audit. The County Assembly was not in compliance with the procurement Act 2005 Public Procurement and Disposal Regulations, 2006.

Recommendation

The County Assembly should comply with the Public Procurement and Disposal Act, 2005 and the Procurement and Disposal Regulations, 2006 to ensure competitiveness and promote integrity and fairness in procurement.

4.0 DEFUNCT MUNICIPAL COUNCIL OF KISII

4.1 Municipal Revenue

Examination of revenue records namely the counterfoil receipt book register (CRBR), revenue books, revenue control sheets, cashier's Miscellaneous Receipt (MRs), receipt cashbook, bank statements and bank pay-in-slips revealed the following observations:

- i. The Municipal Council of Kisii accounts with Co-operative Bank-Kisii were closed on 21 August 2013 long after the deadline.
- ii. The account in Family Bank had not been closed as at the date of this report.
- iii. The Council did not bank money in the County Revenue Account No.114075859 at Kenya Commercial Bank-Kisii until the Municipal accounts were closed on 21 August 2013 where Kshs.775,217.90 was transferred to KCB. The Council did not

comply with the Constitution where the accounts and related funds were supposed to be taken over by the County Government.

Recommendation

The management should comply with the law in future

4.2 LATF and other revenue Banking

The revenue realized and sourced from LATF on January 2013 as captured in the receipts cashbook and income ledgers revealed total collections of Kshs.143,487,782.00 while analysis of bankings from bank statements revealed a banking of Kshs.125,756,690.00 resulting in an under banking of Kshs.17,731,092.00.

The following additional observations were made:

- i. The Council spent Kshs.17,731,092.00 revenue collected directly and issued dummy cheques amounting to Kshs.4,624,855.00 to offset the under banking.
- ii. Out of the revenue collected, the County Government and Assembly spent Kshs.1,070,000.00 from the Municipal's collected revenue and the same has not been refunded.
- iii. The remaining balance amounting to Kshs.12,036,237.00 was spent in paying casual wages, fuel expenses for garbage collections, office petty cash and other expenses.
- iv. The Council did not carry out weekly or monthly reconciliation on Revenue Collection and Banking.
- v. The County Government borrowed Kshs.3,000,000.00 from Municipal Council and the same had not been refunded to the Council as at the time of the audit.

Recommendations

- i. The Council should ensure that revenue collected is banked intact.
- ii. Reconciliation should be carried out weekly or monthly.
- iii. All money borrowed by the County Government should be accounted for.

4.3 LATF Expenditure

The Council received in her LATF Account No.01120017887102-Cooperative Bank of Kenya, Kisii Branch, an amount of Ksh.54,411,013.00 in respect of LATF on 22

February, 2013. The following issues arose from the examination of the relevant records:

- i. Although this amount of LATF received was to be spent on items approved in the budget (i.e. various capital projects worth Kshs.26,012,620.00), the Council did not undertake any single capital project despite receiving all the funds. The Council did not prepare supplementary budget for approval of the funds meant for capital projects to be utilized for other purposes.
- ii. An amount of Kshs.48,500,000.00 and a further Kshs.4,500,000.00 was transferred on 22 February 2013 to Salaries account No.01120017887100, Co-operative Bank of Kenya Kisii Branch. However, no Council minutes and resolutions were availed to support the transfers and also show the nature or schedule of expenditure to be incurred.

Recommendation

The Council management should provide the relevant authority documents in relation to the above cash transfers.

4.4 Payments for Professional Services

During the period under review, the Council made the following payments for various professional services but there were incomplete records to support the payments:

- i. Kshs.4,000,000.00 for Legal Services
- ii. Kshs.4,700,000.00 for Consultancy Services
- iii. Kshs.4,000,000.00 for Insurance Services

In all the three cases the following anomalies were noted:

- i. Payment Vouchers did not have support documents
- ii. The payments were not captured in the LAIFOM system
- iii. The payments were not recorded in the cash book
- iv. Documents showing procurement procedures used were not made available for review.

Recommendation

- i. The County Government should ensure that the payment vouchers have the relevant supporting documentation and are availed for audit. In addition, they should be posted to all the relevant records and captured in the LAIFOM system.

- ii. It is also recommended that an investigation be carried out to authenticate the outstanding balance of Kshs.33,939,237.00 paid to a legal firm shown in the Assets and Liabilities schedule.
- iii. The County Government should also avail the relevant insurance policy document to confirm the terms and items covered.

4.5 Payment of Staff Salary Arrears

During the period under review, the Council paid staff salary arrears amounting to Kshs.7,404,191.00.

The following weaknesses were noted on the above expenditure on salary arrears:

- i. Payment vouchers lacked the supporting documentations such as schedules of staff to show those who were paid.
- ii. The Council did not maintain salary arrears register and ledger to help ascertain the movement of individual staff salary arrears.
- iii. The Council in her schedule of assets and liabilities indicated outstanding salary arrears of Kshs.29,158,748.00. However; the Council did not provide a schedule with individual balances to support the same. In addition, no ledger was maintained to help confirm the same.
- iv. The payments made were not captured in the LAIFOM system.
- v. The payments were not recorded/posted in the cash book.

Recommendation

The Council should ensure that the payment vouchers have the relevant supporting documentation and are availed for audit. In addition, they should be posted to all the relevant records and captured in the LAIFOM system.

4.6 Creditors

The total figure of liabilities submitted by the Council to the County was Kshs.661,687,184.35.

The following weaknesses were noted:

- i. The Creditors ledger was not updated in order to support individual account balances.
- ii. The Council did not provide individual listing /schedule for staff to support the balance of Kshs.29,158,748.00 shown as Council staff arrears.

- iii. Outstanding invoices and statements of accounts to support the balances for statutory creditors and other suppliers of goods and services were not provided for review.
- iv. The Council had indicated the intention to pay off the balance of Kshs.23,803,553.00 to the National Housing Corporation through property debt swap arrangement and that negotiations were going on. This was to involve the Council's rental property at Nyanchwa comprising 16 units in 4 blocks. However, no authority was sought from the Minister to authenticate this intention. In addition no valuation had been carried to determine the value of the 16 units together with the land.

Recommendation

The County Government should provide the necessary supporting documentation for the creditors' balances. The County Government should re-evaluate intention for the debt swap with NHC and seek for alternative means of clearing her debt with NHC.

4.7 Debtors

Examination of LAIFOM listing reflected outstanding debtors in respect of Land Rates of Kshs.138,949,506.00 and Kshs.6,598,550 for house rent as at 30 June, 2013 and Contribution In Lieu Of Rates of Kshs.147,250,830.00. The following weaknesses were noted:

- i. The rates ledger was not updated to show and support the balance of Kshs.138,949,506.00 as at 30 June 2013. (i.e. the ledger only reflected a balance of Kshs.127, 701,618.00 as at 1/5/2013).
- ii. Similarly, the House rent ledger was not updated to show and support the balance of Kshs.6,598,550.00 as at 30 June 2013 (i.e. the ledger only reflected a balance of Kshs.1,050,820.00 as at 1 February 2013).
- iii. While the balance for CILOR was reflected in the ledger as Kshs.147,250,830.00 as at 1 July 2013, the ledger was not updated to show the balance as at 30 June 2013.

Recommendation

The County Government should update the debtors' ledger to show the balances as at 30 June, 2013 and reconcile the same with LAIFOM records.

4.8 Motor Vehicle/ Log Books

Examination of motor vehicle records revealed that the Council had seven (7) grounded vehicles and eleven (11) vehicles which were in good condition.

Physical verifications revealed that the grounded vehicles are stored in an open place adjacent to the main building which exposes them to heavy wear and tear due to heavy rain and exposure to the sun.

Recommendation

The management should repair or dispose the grounded vehicles to avoid further loss of value.

5.0 DEFUNCT COUNTY COUNCIL OF GUSII

5.1 Bank Accounts

- i. The County Council of Gusii accounts with Family Bank-Kisii were closed on 18 June, 2013 contrary to the Constitutional requirement.
- ii. The Council did not bank money in the County Revenue Account No.114075859 at Kenya Commercial Bank-Kisii by March 05, 2013 as required.

5.2 Power Disconnection

- i. Examination of the electricity bill documents revealed that Kenya Power and Lighting Company was demanding Kshs.519,570.81 in respect of accumulated bills for account number 545803-01 for the power used by Community Training Centre-a property of County Council of Gusii.
- ii. In July 2013, Kenya Power disconnected electricity for County Council of Gusii headquarters due to unpaid accumulated bills. The Council disputed the bill vide letter Ref No.GCC/ADM/14/27/(164) dated 7 March, 2012 and also the County Government wrote a letter Ref No.KSI/C/TR/1 dated 5th July 2013.
- iii. Currently, the County Government is running a diesel generator to light the County Headquarters thereby incurring approximately Ksh.10,000.00 per week which is expensive as compared to electricity from Kenya Power.

Recommendation

The County Government should initiate negotiations with Kenya Power with a view of settling the outstanding debts and resumption of power.

5.3 Motor Vehicles

- i. The Council had eight (8) grounded vehicles, one (1) already disposed and three (3) in running condition.

- ii. The grounded vehicles were not properly stored as they are lying in the compound of the Council which is currently occupied by the County Government.

Recommendation

The grounded vehicles should be disposed and proper storage facilities constructed for safe custody.

5.4 LATF Expenditure

The Council received Ksh.51,644,848.00 in respect of LATF on 22/2/2013. The following issues arose from the examination of the relevant records:

- i. Kshs.13,000,000.00, Kshs.5,000,000.00 and Kshs.7,000,000.00 were transferred on 27/02/2013 to account No. 01120017645104 salaries account, account No.01120017645103 PRF II and 01120017645102 PRF I accounts respectively, all in Cooperative Bank of Kenya, Kisii Branch. However, no Council minutes and resolutions were available to authenticate the transfers and also show the nature or schedule of expenditure to be incurred.
- ii. Although this amount of LATF received was to be spent on items approved in the budget (i.e. various capital projects worth Kshs.40,544,848.00), the Council did not undertake any capital projects. The Council did not prepare supplementary budget for approval of the funds meant for capital projects to be utilised for other purposes.
- iii. The Council did not update her cash books to record payments made from the above bank accounts.

Recommendation

The minutes and schedules should be made available.

5.5 Unsupported Payments

Payments worth Kshs.8,821,135.00 were made to various suppliers of goods and services during the period under review. However, the Payment vouchers lacked the supporting documentations such as invoices and receipts that would indicate services rendered.

Kshs.5,000,000.00 paid to NSSF through an EFT in respect of penalty was not captured in the LAIFOM system. In addition, the payment voucher was not supported by a receipt for accountability.

Recommendation

The County Government should ensure that the payment vouchers have the relevant supporting documentation and are available for audit. In addition, they should be posted to all the relevant records and captured in the LAIFOM system.

5.6 Legal Fee Expenses

The Council on various dates made payments in respect of legal fees totaling to Kshs.1,308, 300.00.

However, the following anomalies were noted on the transactions:

- i. Payment vouchers lacked the supporting documentations such as invoices/fee notes and receipts that would indicate services rendered.
- ii. The payments were not recorded/posted in the cash book
- iii. The Council did not provide relevant documents to show whether or not procurement procedures were followed in identifying the firm to provide legal services.

Recommendation

The County Government should ensure that the payment vouchers have the relevant supporting documentation and are made available for audit. In addition, they should be posted to all the relevant records.

5.7 Payment of Salary Arrears

During the period under review, the Council paid staff salary arrears amounting to Kshs.3, 249,155.00. This was made vide chq. No.530 of 28/2/2013.

- i. Although a schedule of individual staff paid was attached to the payment voucher, the Council did not maintain a salary arrears ledger to show the movements in the year.
- ii. The payment was not captured in the LAIFOM system and also not recorded in the cash book.

Recommendation

The County Government should maintain salary arrears ledger and ensure that the payment vouchers are posted to all the relevant records and captured in the LAIFOM system.

5.8 Payment for Insurance Services

The Council paid an amount of Kshs.585,583.00 (cheque no.483 of 26 February 2013) to an Insurance Brokerage firm.

The following weaknesses were noted:

- i. Payment vouchers lacked the supporting documentations such as invoices and receipts for accountability purposes.
- ii. The Council did not provide Insurance Policy Documents to ascertain the terms of the cover and the items.
- iii. The payments were not recorded/posted in the cash book.
- iv. The Council did not provide relevant documents to show whether or not procurement procedures were followed in identifying the firm to provide insurance services.

Recommendation

The County Government should ensure that the payment vouchers have the relevant supporting documentation and are availed for audit. In addition, they should be posted to all the relevant records.

5.9 Creditors

The Council in her schedule of liabilities submitted to the County Government reflected an amount of Kshs.63, 804,874.00 as at 19 March, 2013.

The following weaknesses were noted:

- i. The Council did not maintain creditors` ledger to support the said balances.
- ii. An individual listing /schedule for staff to support the balance of Kshs.14,822,695.00 was not provided.
- iii. The Council did not provide outstanding invoices and statements of account balances for LAPTRUST, NSSF, ALGAK, KENAO, Mwema & Kigotho, GLAE SACCO, Migiro & Co. Advocates and Onsembe & Co. Advocates.
- iv. The Council did not provide supporting documentation such as Miscellaneous Receipts issued to Elimu Academy to support the balance for Kshs.2, 400,000.00 and no ledger to support the figures.

Recommendation

The County Government should provide the necessary supporting documentation for the creditors` balances.

5.10 Debtors

The Council reflected an amount of Kshs.21, 550,376.00 in respect of outstanding debtors (i.e. Kshs.20, 620,376.00 for plot rent and Kshs. 929,900.00 for house rent). However, the Council did not maintain the necessary ledgers to help ascertain the debtors' movements during the year and the balances.

Recommendation

The County Government should maintain the necessary ledgers to ascertain the debtors' movement.

5.11 Personnel and Establishment

5.11.1 Irregular payment – KShs.448,613.00

An amount of Kshs.448,613.00 was paid to the former Town Clerks in lieu of accumulated leave days totaling to 160 days.

The following additional observations were made:

- i. His personal file did not have any correspondences showing why the officer was not proceeding on leave for all the claimed period.
- ii. The leave allowance was not taxed.

Recommendation

The management should provide documentation showing the authorization for the payment and reasons why the ex-officer could not proceed on leave when due.

6.0 DEFUNCT TOWN COUNCIL OF SUNEKA

6.1 Town Revenue

Examination of revenue records namely counterfoil receipt book register (CRBR), revenue books, revenue control sheets, cashier's Miscellaneous Receipt (MRs), receipt cashbook, bank statements and bank pay-in-slips revealed the following.

6.2 Bank Accounts

The account in Barclays Bank had not been closed as at the date of this report and the Council did not bank money in the County Revenue Account No.114075859 at Kenya Commercial Bank-Kisii until the Municipal accounts were closed on 21 August 2013.

6.3 Revenue Collections and Banking

The revenue realized was sourced as captured in the receipts cashbook which revealed a total collections of Kshs.6,499,701.00 analysis of banking from bank statements revealed a banking of Kshs.5,298,782.00 thus an under banking of Kshs.1,200,919.00.

The Council did not carry out weekly or monthly reconciliation on Revenue Collection and Banking.

The Council did not provide the supporting documents to support under banking amounting to Ksh.1,200,919.00.

Recommendations

- i. The County Government should ensure that revenue collected is banked intact.
- ii. Reconciliation should be carried out weekly or monthly.

6.4 LATF Expenditure

The Council received in her LATF Account an amount of Ksh.10, 579,369.00 in respect of LATF on 22/2/2013. The following issues arose from the examination of the relevant records:

- i. Although this amount of LATF received was to be spent on items approved in the budget (i.e. various capital projects worth Kshs.4,374,481), the Council did not undertake any capital projects.
- ii. The Council did not prepare supplementary budget for approval of the funds meant for capital projects to be utilized for other purposes.

Recommendation

The County Government should in future adhere to her approved budget or seek authority through a supplementary estimate to utilize the funds for other uses.

6.5 Unsupported Payment Vouchers

Payment vouchers worth Kshs.180,000.00 were paid to various suppliers of goods and services during the period under review. However, the Payment vouchers lacked the supporting documentations such as invoices and receipts that would account for the same.

Recommendation

The County Government should ensure that the payment vouchers have the relevant supporting documentation and are availed for audit.

6.6 Imprest/Per diem Allowances not Accounted for

During the period under review, the Council paid her staff an amount of Kshs.298,000.00 in respect of Per Diem/Night outs but did not have supporting documentation for accountability. In addition the Council did not maintain an imprest register to record the same.

Recommendation

The officers should be called upon to account for the same or recoveries made. An imprest register should be maintained to record imprests issued.

6.7 Creditors

The Council in her schedule of liabilities indicated a total of Kshs.54, 245,799.00 on various items. The following weaknesses were noted:

- i. The Council did not maintain ledgers to support the balances.
- ii. Individual staff schedule was not provided to support employee salary balance of Kshs.35,320,099.00

Recommendation

The County Government should maintain proper creditor's records to support the balances.

6.8 Debtors

During the period under review, the Council reflected a total of Kshs.28, 512,666.00 in respect of debtors as at 27/3/2013. This comprised of Kshs.28, 000,000.00 for CILOR (Contribution in Lieu of Rates). Details were as below:

Item	Amount
Single Business Permit	139,850.00
Plot Rent	372,816.00
CILOR	28,000,000.00
Total	28,512,666.00

- i. The Council did not maintain debtors ledger to help ascertain the balances.
- ii. Schedules were not provided to support the balances for single business permit and plot rent reflected at Kshs.139, 850.00 and Kshs.372, 816.00 respectively.
- iii. Ministry of Lands letter REF:Val.39(5) of 5/9/2012 indicated CILOR balance of Kshs.31,027,500.00 out of which Kshs.3,000,000.00 was paid to the Council on 16/11/2012 as reflected in bank statement account No.1133300626 (General

Rate Fund), Kenya Commercial Bank Kisii branch. The correct balance should therefore be Kshs.28,027,500.00.

Recommendation

- i) Correct debtors balances should be ascertained and proper supporting documents/information should be provided.
- ii) The County Government should maintain relevant debtor's records to support their balances.

7.0 DEFUNCT TOWN COUNCIL OF TABAKA

7.1 Town Revenue

Examination of revenue records namely; counterfoil receipt book register (CRBR), revenue books, revenue control sheets, cashier's Miscellaneous Receipt (MRs), receipt cashbook, bank statements and bank pay-in-slips revealed the following observations.

7.2 Bank Accounts

- i. The Council's accounts with Kenya Commercial Bank-Kisii had not been closed due to outstanding unpaid overdraft facility of Kshs.11,943,082.15.
- ii. The Council did not collect revenue in the month of January and February 2013 due to hostile reception from the community.

7.3 Revenue Collections and Banking

The revenue realized own source as captured in the receipts cashbook which revealed a total collections of Kshs.555,850.00 and an analysis banking from bank statements revealed a banking of Kshs.397,490.00 thus an under banking of Kshs.158,360.00 as detailed below.

Month	Cash Book Figures Kshs.	Bankings as per Bank statement Figure Kshs.	Under banking Kshs.
Jan-13		0	-
Feb-13		0	-
Mar-13	176,090.00	73,440.00	102,650.00
Apr-13	91,030.00	107,480.00	(16,450.00)
May-13	162,780.00	78,830.00	83,950.00
Jun-13	125,950.00	137,740.00	(11,790.00)
Total	555,850.00	397,490.00	158,360.00

The Council did not carry out weekly or monthly reconciliation on Revenue Collection and Banking.

The management did not bank all the revenue intact and as a result Kshs.158,360.00 was not accounted for.

Recommendations

The County Government should ensure that revenue collected is banked intact. Reconciliation should be carried out weekly or monthly.

7.4 Debtors

The Council in her schedule of current assets reflected an amount of Kshs.1,143,331.00 in respect of plot rent debtors. However, the Council did not provide a schedule and a ledger to support the balance.

Recommendation

The County Government should be called upon to provide a schedule and maintain a ledger to support the balances.

7.5 Creditors

The Council's liabilities amounting to Kshs.34,658,076.00 had the following issues:

- i. The Council did not maintain creditors' ledger to support the balances
- ii. Kshs.14, 624,558.00 for salary arrears was not in agreement with schedule which indicated Kshs.23,981,233.15 leading to a variance of Kshs.9,356,675.15.
- iii. Loan-KCB Overdraft was reflected as 11,049,943.00 while the bank statement account No. 1101995742 Kenya Commercial Bank Kisii branch, indicated Kshs.11, 943,082.15 leading to an unexplained variance of Kshs.893, 139.15. This overdraft remained unsettled as at the time of audit.
- iv. Outstanding invoices and statements were not provided to support the balances for LAPFUND, LAPTRUST, KENAO, Consultant-Henry Masira & Associates and PAYE.

Recommendation

The County Government should be called upon to maintain relevant records and provide the necessary documentation to support the creditors' balances.

8.0 DEFUNCT TOWN COUNCIL OF MASIMBA

8.1 Handing over documents for assets and liabilities

The defunct Town Council of Masimba lacked a comprehensive handover document of its state of affairs in favour of Kisii County incorporating Assets and Liabilities to be taken over by the County.

Recommendation

Efforts by the current management need to be made for the preparation of a comprehensive document for information on the state of affairs of Town Council of Masimba now defunct to Kisii County.

8.2 Property, Plant, and Equipment

Non- Current Assets formerly owned by Masimba Town Council now defunct incorporated the following assets though no comprehensive handover document has been prepared for the handing over of the same to Kisii County Government .

Asset	Registration/Serial No.	Current Status
Motor vehicle	KAE 040 V	Unserviceable
Computers & CPUs		
Desktop Computer	PSPF6D062673400489W	Functional
Laptop Computer	38104108Q	Functional
Printer	73500685641	Functional

However, one other laptop and one other printer have not been surrendered by a former employee.

Recommendations

- i) Proper handing over documentation should be prepared
- ii) Unsurrendered Laptop and Printer should be followed up for recovery.

8.3 Status of Closure of Bank Account

Town Council of Masimba now defunct operated the following bank accounts under Kenya Commercial Bank and at Co-operative Bank. However, the accounts at Co-operative B remained dormant from the time of opening.

	KCB BANK		CO-OPERATIVE BANK	
Account Name	Account No.	Amount at closure	Account No.	Amount at closure
		Kshs		Kshs
General Rate Fund	1102220256	40,720 Cr	01120360367300	Nil
LATF Fund	1102214396	5,828 Cr	01120360367302	Nil
Road Maintenance Fund	1102220647	Nil balance	-	-
Kenya Roads Board	-	-	01120360367301	Nil
Gusii County Council A & L	-	-	01120360691400	Nil

- i. The above amounts under Kenya Commercial Bank Accounts were transferred to Kenya Commercial Bank Kisii County Revenue Collection account No 1140758519 at Kenya Commercial Bank Kisii.
- ii. There were no bank reconciliation statements for the active accounts under Kenya Commercial Bank.

8.4 Staff Salary and Councilors' Allowance arrears

Kisii County took over staff under Town Council of Masimba now defunct in February 2013. The amount of unpaid salary arrears as at 30th June 2013 amount to Kshs.35,931,099 some of which date as far back as year 2001 . Arrears of Councilors Remuneration as at the same date stood at Kshs.2,356,930 and outstanding Travelling and subsistence allowances for staff and Councilors' amounted to Kshs.1,083,000 and Kshs.737,000 respectively.

Recommendation

Detailed review on the status of the outstanding salary arrears needs to be done by the County Government before settlement.

8.5 Outstanding Liabilities

Town Council of Masimba now defunct had long outstanding liabilities. However details supporting some of them were not availed for audit verification. Below are categories of liabilities:

Personal Emoluments	Kshs.
Staff Salary arrears	35,931,099.00
Councilors' salaries arrears	2,356,930.00
Councilors' allowances	1,083,000.00
Staff allowances	737,000.00

Statutory deductions

N.H.I.F	128,520.00
NSSF	294,300.00
KRA	3,215,235.00

Other Liabilities

ALGAK	534,029.00
Lap Fund	24,923,416.00
Laptrust	296,372.00

Recommendation

Detailed review on the status of the outstanding liabilities need to be done by the County Government before settlement and efforts be made by the current management to settle the same.

8.6 Revenue Collection

The defunct Town Council of Masimba went on uninterrupted with revenue collections using the existing revenue receipts as advised. During the period under consideration, a comparison receipt cash book, deposit slip, cashiers miscellaneous receipts and bank statements revealed that the Council collected Kshs.2,400,205.00 and banked Kshs.1,327,347.00 resulting in a net under banking of Kshs.1,072,347.00.

8.7 Debtors and Receivables

The Council's debtors and receivables stood at Kshs.1,436,685.00 constituted as follows;

Items	Amount Kshs
Plot rent	1,512,300.00
Less 5% provisions	75,615.00
Total	1,436,685.00

The Council did not avail schedules, demand notices and ledgers showing the composition of debtors.

Recommendation

The County Government should support debtors by updated records and enforce rigorous debt collection measures.

8.8 LATF Receipts and Payments

The Council received LATF in two tranches of Kshs.19,290,074.00 each on 1/2/2013 and 25/2/2013.

The summarised payments from LATF account were as follows:

		Kshs.
1/2/2013	Loan arrears	7,869.55
1/2/2013	Loan arrears penalty	319,292.30
1/2/2013	Loan arrears interests	322,884.85
1/2/2013	Loan arrears principal	8,932,415.00
	Cash book payments	756,000.00
	Total	10,338,462.55

Second tranche Kshs.8,956,106.00

26/2/2013	Transferred to General Rate Fund account	8,950,000.00
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9.0 DEFUNCT COUNTY COUNCIL OF GUCHA

9.1 Revenue Collection and Banking

Examination of revenue records namely receipts cash books, bank statements and revenue receipt books for the period January to June 2013 revealed that the Council did not bank revenue intact as required by Paragraph B 5 of the Local Authority Financial Management Regulations 2007. Details as shown below:

Details	Collection	Banking	Variance
Jan 2013	2,204,577.95	1,704,729.00	499,848.95
Feb 2013	2,164,349.35	2,892,749.35	(728,400.00)
March 2013	1,118,190.00	1,105,490.00	12,700.00
April 2013	1,394,482.75	1,325,250.00	69,232.75
May 2013	1,140,105.00	1,027,830.00	112,275.00
June 2013	881,317.00	938,842.00	(57,525.00)
Total	8,903,022.05	8,994,890.35	(91,868.30)

The following observations were made:

- i) The Council had incurred an expenditure of Kshs.91,868.30 directly from revenue before banking having collected Kshs.8,994,890.35 and banked Kshs.8,903,022.05
- ii) Revenue collected is banked on weekly basis instead of daily basis.
- iii) It was also observed that all the Council continued to use revenue books which were held by defunct Local Authority after 28 February, 2013.

Recommendations

- i) All the sub counties should adhere to the Local Authority Financial Management Regulations 2007 which requires intact banking of revenue.
- ii) The County management should own the old revenue books awaiting printing of new ones.

9.2 Debtors/Receivables

The Council did not avail an authentic list of Council debtors submitted to the Transition Authority. The financial statements as at 30/6/2013 revealed a debtors total balance of Kshs.9,438,836.00 as detailed below:

Item	Outstanding amount (Ksh)
Isolated plot Rent	0.00
Single business permits	2,450,408.00
Staff and Councillors Advances	0.00
Electricity Deposits	25,000.00
Market Plot rents	6,963,428.00
Totals	9,438,836.00

The above figures were confirmed to the debtors' ledger and registers.

Recommendations

The County Government should in future maintain plot rents and other debtors records should be kept up to date.

9.3 Un-authorized Implementation of Collective Bargaining Agreement of September 2012

Comparison between March and April 2013 payrolls revealed variance in the gross pay as below:

Month	Gross salary
April 2013	5,998,628.00
March 2013	3,810,236.00
Variance	<u>2,188,392.00</u>

During the month of April 2013 the Council implemented new salaries as contained in the Collective Bargaining Agreement of 2012 without seeking ministerial authority. This implementation of C.B.A pushed the Council's monthly Gross wage bill by Kshs.2,188,392 per month. Since this C.B.A implementation takes effect from 1st Sept 2012 the resulting gross arrears amounts to Kshs.15,318,744.00

Recommendation

The management should provide an explanation for the unauthorized expenditure.

9.4 Expenditure on LASDAP projects

The Council received its second LATF allocation on of Kshs.5,863,126.00 on 22 February 2013.

Examination of sampled payment vouchers amounting to Kshs4,014,000.00 other records revealed that payments in respect of project implementation were not adequately supported with all the relevant documents. ie LSO , invoices.

- i) Verification of works at Nyacheki Market revealed that although the road was opened, the drainage constructed at a cost of Kshs.1,160,000.00. However, there was no evidence of watering and compacting having been done.
- ii) Verification of Itumbe market where road works were done at the cost of Kshs.1,529,135.20. However, there was also no evidence of compaction.

Recommendation

The County Government should in future ensure that all the tasks in the Bills of Quantities are done and certified before payment is made.

9.5 Cash and Bank Balances

- i. All the bank accounts remained operational as per the bank statement even long after the Council became defunct.
- ii. Bank certificates were not availed hence the accuracy and correctness of balances could not be ascertained.
- iii. A total amount of Kshs.8,292,364.00 paid to various suppliers out of LATF fund was not supported with relevant documents. It was therefore not possible to confirm that goods/services were delivered.

Recommendation

- i) Bank Certificates should be obtained and balances confirmed.
- ii) Support documents for the expenditure of kshs.8,292,364.00 should be provided and delivery of goods/Services confirmed.

9.6 Motor Vehicles

The Council has not availed for audit logbooks for the following motor vehicles hence ownership could not be confirmed.

Recommendation

Ownership documents should be made available for audit.

9.7 Salary Arrears Kshs.15,993,330.00

Observations

The Council has records showing salary arrears amounting to Kshs.15,993,330.00. The salary arrears register was not updated hence the accuracy and correctness of salary arrears could not be verified.

Recommendation

The management should update salary arrears register and ascertain correct salary arrears.

9.8 Creditors Kshs.9,471,027.00

Amount due to contractors amounting to Ksh.9,471,027 for work done could not be verified as no certificates for work done were availed for audit verification.

Recommendations

The work done by creditors should be verified and certified before any payment is made to the contractors.

9.9 Non-remittance of Statutory Deductions

It was observed that the Council had outstanding statutory deductions of Ksh.6,438,229.00, Ksh.88,320.00 Ksh.621,292.00 and Ksh.3,075,055.00 in respect of Lapfund, National Hospital Insurance Fund, NSSF and KRA respectively.

Recommendation

The County Government should promptly pay the outstanding liabilities to avoid late payments penalties.

10.0 DEFUNCT TOWN COUNCIL OF NYAMARAMBE

10.1 Revenue Collection and Banking

Examination of revenue records namely receipts, cash books , bank statements and revenue receipt books for the period January to June 2013 revealed that the Council did not bank revenue intact as required.

Details as shown below:

Month	Collections	Banking	Variance
Jan	603,840.00	635,450.00	(31,610.00)
Feb	464,990.00	447,110.00	17,880.00
Mar	674,500.00	473,020.00	201,480.00
Apr	542,760.00	660,268.00	(117,508.00)
May	773,388.00	276,935.00	496,453.00
Jun	607,811.00	516,776.00	91,035.00

Further, the Council had incurred an expenditure of Kshs.657,730.00 directly from revenue before banking having collected Ksh.3,667,289.00 and banked Kshs.3,009,559.00.

Recommendations

- i. All the sub counties should adhere to the Local Authority Financial Management Regulations 2007 which requires intact banking of revenue.
- ii. The County management should own the old revenue books awaiting printing of new ones.

10.2 Debtors/Receivables

- i) The Council did not include outstanding plot rent amounting to Kshs1,324,166.00 in the list of assets submitted to the Transition Authority.
- ii) Schedules for Nyakembene and Mong'ane markets were not availed for verification and therefore the outstanding balance in these markets were not included in the debtors figure.
- iii) The above figures were not confirmed to the debtors registers / ledger.

Recommendations

- i) Plot rents is a major local revenue base for the County Government and therefore the sub- counties should disclose what they are owned by plot owners to the Transition Authority.
- ii) All plot rents and other debtors records should be kept up to date.

10.3 Cash and Bank Balances- Bank Overdraft

Review of bank statement revealed the town Council took two overdrafts of Kshs.1,000,000.00 and Kshs.10,000,000.00.

However the management did not provide the following documents for Audit review:

- i. Full Council resolution to borrow from KCB
- ii. Approval to borrow as per local government act
- iii. Loan agreement
- iv. Evidence that loan was used for the purpose.

Recommendation

- i) The documents indicated above should be availed for audit scrutiny.
- ii) Strong controls over borrowing should be put in place to ensure that funds are acquired economically after approval.

10.4 Motor Vehicles and Furniture

The County Government has one Vehicle, KAL 404, which is grounded. Ownership documents were not availed for verification.

Recommendation

The County Government should ensure that the motor vehicle is repaired to enable value addition. Ownership documents should be made available.

10.5 Creditors

The creditors' balances amounting to Kshs.5,222,912.00 submitted to TA could not be verified for correctness and accuracy. Written Agreements, and supported vouchers were not availed for audit verification.

Recommendations

The County Government should in future maintain the necessary records to support the creditors' balances.

10.6 Salary Arrears

The Council records showed salary arrears amounting to Ksh.22,684,721.00. The salary arrears register was not updated hence the salary arrears balance could not be verified.

Recommendations

The salary register should be updated

10.7 Labor Based Contract

The Council is using labor based contract to construct the Town Hall and has spent Ksh.2,436,650. However the Council has not provided certificate and record of work done. The materials are also procured directly without compliance to the Public Procurement and Disposal Act 2005 and Public Procurement and Disposal Regulations, 2006. The amount paid for work done could not be confirmed.

Recommendation

The County Government should in future ensure that all the tasks in the Bill of Quantities are done before payment is made.

11.0 DEFUNCT TOWN COUNCIL OF NYAMACHE

11.1 Revenue Collection and Banking

Examination of revenue records namely receipts, cash books, bank statements and revenue receipt books for the period January to June 2013 revealed the Council do not bank its revenue intact as required.

Details as shown below:

Month	Banking	Collection	Variance
Jan	349,543.00	808,071.00	(458,528.00)
Feb	139,140.00	312,876.00	(173,736.00)
Mar	212,060.00	238,590.00	(26,530.00)
April	216,550.00	267,790.00	(51,240.00)
May	139,390.00	187,930.00	(48,540.00)
June	60,625.00	141,505.00	(80,880.00)
Totals	1,117,308.00	1,956,762.00	(839,454.00)

It was observed that the Council realized revenue amounting to Kshs1,956,762.00 but only banked Kshs.1,117,308.00 and incurred an expenditure of Kshs.839,454.00 directly from revenue before banking.

Recommendations

- i. The sub County should adhere to the Local Authority Financial Management Regulations 2007 which requires intact banking of revenue.
- ii. The County management should own the old revenue books awaiting printing of new ones.

11.2 Debtors/Receivables

- i) The Council did not avail an authentic list of Council debtors submitted to the Transition Authority for audit verification.
- ii) Scrutiny of plot rent details and amount outstanding notice dated 16/5/2012 revealed an outstanding balance of Kshs.2,003,670.00 as detailed below:

Item	Outstanding amount (Ksh)
Nyamache market	1,394,605.00
Kioduso Market	337,625.00
Nyachogochocho market	271,440.00
Total	2,003,670.00

A debtor's ledger and register were not availed to confirm the above balance

Recommendations

- i. Plot rent is a major local revenue base for the County Government and therefore the Sub- County should disclose what they are owed by plot owners to the Transition Authority.
- ii. All plot rents and other debtors records should be kept up to date.

11.3 Cash and Bank Balances

- i. All the bank accounts remained operational as per the bank statement even long after the Council became defunct.
- ii. Bank certificates were not availed hence the as accuracy and correctness of balances could not be ascertained.
- iii. Bank Reconciliations not availed hence the accuracy and correctness of balances could not be ascertained.

Recommendation

The County Government must ensure strong controls over cash and bank by maintaining updated cash book and carrying out of regular reconciliations.

11.4 Creditors

Scrutiny of the Council list of liabilities submitted to the Transition Authority revealed a balance of Kshs.5,536,757.00. A creditor's ledger was not availed to confirm this balance.

Recommendations

The creditors' ledgers should be up dated and regularly reconciled.

12.0 TOWN COUNCIL OF OGEMBO

12.1 Revenue Collection and Banking

Examination of revenue records namely receipts, cash books, bank statements and revenue receipt books for the period January to June 2013 revealed that the Council did not bank her revenue intact as required.

The following additional observations were made:

- i) The Council realized revenue amounting to Kshs.5,101,682.00 but only banked Kshs.4,020,124.00 and incurred an expenditure of Kshs.1,081,558.00 directly

from revenue before banking . During the same period the Council made direct payments amounting to Kshs.671,459.00 leaving an un explained variance of Kshs.410,099.00.

- ii) Examination of payment vouchers in respect of this direct expenditure revealed that the vouchers lacked PV numbers, Authority and vote book certificates.

Recommendations

- i. The Sub County should adhere to the Local Authority Financial Management Regulations 2007 which requires intact banking of revenue.
- ii. The County management should own the old revenue books awaiting printing of new ones.

12.2 Debtors/Receivables

A review of the Council debtors records revealed the following observations:

- i) The Council did not avail an authentic list of Council debtors submitted to the Transition Authority for audit verification, however scrutiny of outstanding plot rent schedules as at 30/6/2013 revealed a debtors total balance of Ksh. 1,498,035.00.
- ii) The Council did not prepare and therefore did not avail a debtors' ledger and control accounts to support the above balances.

Recommendations

- i) Plot rents is a major local revenue base for the County Government and therefore the sub- County should disclose what they are owned by plot owners to the Transition Authority.
- ii) All plot rents and other debtors records should be kept up to date.

12.3 Cash and Bank Balances

- i. All the bank accounts remained operational as per the bank statement even long after the Council became defunct.
- ii. Bank certificates and reconciliations were not availed hence the accuracy and correctness of balances could not be ascertained.
- iii. Payments made from the LATF account for expenditure amounting to Kshs.122,355.00 was not supported and therefore could not be confirmed.

Recommendation

The County Government must ensure strong controls over cash and bank by maintaining updated cash book and reconciliation statements.

12.4 Bank Overdraft

Our Audit revealed that the Council took an overdraft of Kshs.4,500,000 which was settled from LATF account. However the Council did not provide for audit review

- i. Full Council resolution to borrow.
- ii. Ministerial Approval to borrow and Loan agreement as per Local Government Act.
- iii. Bank agreement

Recommendation

The documents listed above should be availed for audit scrutiny.

12.5 Motor Vehicles & Furniture

The fixed asset valuation report was not availed to confirm the asset values. During the evaluation of Motor vehicles it was noted that log books were not availed having been deposited in the bank as bank loan guarantee and therefore ownership could not be ascertained.

Reg	Description	Anomaly
KAN 017B	Toyota Pick up	Logbook not availed
KBG 204C	Tractor	Logbook not availed

12.6 Creditors

The following creditors' balances submitted to Transition Authority could not be verified for correctness and accuracy as written agreements and supported vouchers were not availed for audit verification;

Description	Amount
Strategic design consultants	4,242,250
Mwema & Associates	204,340
Unpaid travelling & subsistence Civic	893,960
Unpaid travelling & subsistence All	431,259
Loan recoveries	1,725,085

Recommendation

Management should provide proper supporting documents.

12.7 Information Systems assessment

2.3.1 Hardware

The County received nineteen (19) computers and (19) UPS from The National Treasury (IFMIS Department) which was solely to be used for IFMIS, two (2) computers from CBK for G-Pay and six (6) modems. The County had two servers in place for LAIFOMS

12.8 Network Connectivity

The County had LAN both in the office of the governor and the Gusii County Council but no wide area network to interlink all sub County offices together. However, the County Government was in the process of laying down the fiber optic to facilitate the Wider Area Network.

Recommendations

- All Sub-County Offices should have adequate infrastructure and LAN to facilitate automation of the County operations.
- The County should ensure that all its Sub-County offices are inter-connected to the head office to ensure efficient monitoring of each Sub-County processes.

12.9 Integrated Financial Management Information System (IFMIS)

IFMIS installation and setup had been done at the Kisii Governors offices. Plan- to-Budget module was being utilized while the Procure -to- Pay module was not in use and all payment processes were carried out manually. The main reason for not using IFMIS for payment processing according to the users was the issue of connectivity. Further interviews with the County staff revealed that the County's ICT staff were not involved in the IFMIS implementation in the County and they were not aware of any challenges experienced by the IFMIS users.

The ICT staff have also not been trained to support the technical aspects of IFMIS. However, the IFMIS users have been trained adequately.

The support team at the IFMIS center help desk was reported not to be responsive to the County user's issues.

Recommendations

- i. The County Government should ensure that there is adequate IT infrastructure and all Sub-Counties are interconnected. The County should ensure that IFMIS is fully operational and is fully utilized for all financial operations.
- ii. The County Government should liaise with the IFMIS Directorate to fast track the implementation of C-IFMIS which will be used to integrate the Revenue Module of LAIFOMS and IFMIS. This will ensure that all revenue collected by the County is reflected in IFMIS thereby promoting accountability of these funds. The IFMIS system should be integrated with G-PAY system.

12.10 Local Authority Integrated Financial Operations Management System (LAIFOMS)

LAIFOMS was installed in 2 Councils: the Kisii Municipal Council and Gusii County Council while all the other sub-counties' revenue collection process was manual. Analysis of data revealed the following:

12.10.1 Kisii Municipal Council

- Under banking of Kshs.53,761,378.00 between the period 1 July 2012 and 9 September 2013. The explanation given to us during the exit meeting was that the banking was done but the deposit slips were not captured in the system. This should be verified in the subsequent audit.

MUNICIPAL COUNCIL OF KISII UNDERBANKING		
DATE	DETAILS	AMOUNT
1st July 2012 to 3rd March 2013	Daily Receipt	147,213,460.00
1st July 2012 to 3rd March 2013	Direct Banking	<u>55,072,213.00</u>
		92,141,247.00
1st July 2012 to 3rd March 2013	BankListing	<u>70,302,358.00</u>
	Underbanking as at 3rd March 2013	21,838,889.00
4th March 2013 to 9th September 2013	Daily Receipt	83,631,766.00
4th March 2013 to 9th September 2013	Direct Banking	<u>163,930.00</u>
		83,467,836.00
4th March 2013 to 9th September 2013	BankListing	<u>51,545,347.00</u>
	underbanking as at 9th september 2013	31,922,489.00

- Kshs.47,261,876.00 reduction in revenue collection (50% decline) between the two periods ending 3 March 2013 and 5 June 2013 as indicated below.

KISII MUNICIPAL COUNCIL TREND IN REVENUE COLLECTION		
DATE	PARTICULARS	AMOUNT
3rd Dec 2012 to 3rd March 2013	Revenue collected	96,034,743.00
5th March 2013 to 5th June 2013	Revenue collected	48,772,867.00
	50%reduction in revenue	47,261,876.00

- Payments of Kshs.35,140,728.00 was made between 13 March 2013 and 17 July 2013.

12.10.2 Gusii County council

- There was a total of Kshs.6,970,418.00 daily receipts for the period 1 July 2012 to but no banking had been captured into the LAIFOMs system.
- Kshs.684,738.00 reduction in revenue which represented 17% between 3 December and 25 April 2013.

GUSII COUNCIL TREND IN REVENUE COLLECTED		
DATE	PARTICULARS	AMOUNT
3rd Dec 2012 to 1st March 2013	Revenue collected	3,827,578.00
5th March 2013 to 25th April 2013	Revenue collected	<u>3,142,840.00</u>
	17% Reduction in revenue collections	684,738.00

Recommendations

- The County management should take control of the management of LAIFOMS previously installed in the Local Authorities so as to ensure that revenue collection is accounted for.
- The County should ensure that each Sub-County has a system in place to monitor the collection of its revenue and ensure that all expenditure incurred is centralized.
- The County should ensure that all revenue collected is banked intact.

12.11 Integrated Payroll and Personnel Database (IPPD)

The County ran the first payroll in July 2013 and adequate training had been offered to IPPD users. The data analysis for the month of September revealed the following;

- There are system users who had conflicting rights and privileges, such that an officer can initiate a transaction in terms of employing, process the payroll and execute the payment. This constitutes lack segregation of duties to the IPPD system.

- ii) The system also lacks various check controls which includes completeness checks, duplicity checks and range checks. Due to lack of these controls, the following anomalies were revealed;
- iii) Two officers sharing one bank account
- iv) Two officers with wrong ID numbers
- v) Nineteen officers with wrong tax PINs
- vi) Fourteen officers with wrong bank account numbers
- vii) Four officers with no designation code
- viii) Ten officers employed while underage
- ix) Date of posting was before date of hiring for 15 officers
- x) Five officers with wrong end date

These anomalies were shared with the payroll manager who informed us that data cleansing will be conducted in the compliment data.

13.0 IT CONTROL ENVIRONMENT

13.1 Staffing and Segregation of duties

The County had adequate ICT staff to provide support to the applications in place.

13.2 Management of IT Operations

The County had not developed the key ICT documents which includes ICT strategies, ICT policy and procedures and BCP/DRP. The County had no ICT Steering Committee in place.

Recommendations

- i. The County Executive and Management should develop, approve, and communicate the IT Strategic Plan, Business Continuity Plan and Disaster Recovery Plan that ensure proper management of IT operations.
- ii. The County should ensure that a properly constituted IT Steering Committee is in place.

13.3 Physical Controls

The IPPD and G-PAY servers are located in the Human Resource office and Accounts office respectively where accessibility is not restricted with adequate physical access controls. The servers are also placed on the floor making them prone to damage in case of flood.

Recommendation

- i. Physical access controls to the server room need to be reinforced.
- ii. The servers should be placed on a raised floor.

14.0 Conclusion

The foregoing observations clearly indicate that the process of taking over of assets and liabilities, including staff of the former Councils was not properly handled due to apparent lack of leadership by officials of the 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 PFA Act 2012. Expenditure should be incurred in accordance with the requirements of the Public Finance Management Act 2012 and for the benefit of the taxpayers.



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

12 March, 2014