

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

REPORT

OF

THE AUDITOR–GENERAL

ON THE

FINANCIAL OPERATIONS

OF

THE COUNTY GOVERNMENT OF
VIHIGA AND ITS DEFUNCT
LOCAL AUTHORITIES

FOR THE PERIOD
I JANUARY TO 30 JUNE 2013

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

EXECUTIVE SUMMARY

1.0 Introduction

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 Further, the County Government Act, 2012 Section 134 (1) repealed the Local Government Act, Cap 265, and thus effectively dissolving all the 175 Local Authorities and creating 47 County Governments.

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

1.1. Audit Objectives

The audit covered the County Executive and County Assembly and the former Vihiga Municipal Council, County Council of Vihiga, County Council of Luanda, transactions for the period 1 January to 30 June, 2013 and took into account transactions before, during and after the transition period. The terms of reference set for the audit included verification and confirmation 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 team faced several constraints during the audit, 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 audit within the planned timelines.

This summary of my findings should be read in conjunction with the detailed report.

1.3 Key Audit Findings and recommendations

1.3.1 Vihiga County Government

1.3.1.1 Imprest

At the time of the audit, temporary imprest amounting to Ksh.3,075,676.00 had been issued but not recorded in the imprest register. Further, an imprest of Kshs.600,000.00 that was issued to an officer vide Imprest Warrant No. 17126/3 on June 2013 was reflected in the Imprest Register as having been accounted for but there was no reference to any payment voucher to support it. The reference document indicated in the register was unclear and management could not explain what it represented.

The County Government should maintain and continually update the Imprest Register. In addition Imprest issued should be fully accounted for as required by Government Financial Regulations and Procedures.

1.3.1.2 Procurement of goods and services

i) Unsupported Expenditure

Payment vouchers amounting to Kshs.946,865.80 were not supported by relevant documents while others amounting to Kshs.612,450.00 were supported by photocopied documents which included invoices and cash sales. In the absence of proper supporting documents, the total expenditure of Kshs.1,559,315.00 could not be confirmed.

The payments should be fully accounted for.

ii) Insurance Premiums

The audit found that a total of Kshs.2,256,140.00 was spent on payment of insurance premiums in respect of vehicles in the County. However, the following anomalies were observed in relation to the payment:

- Although the total of Kshs.2,256,140.00 was paid to an agent for transmission to the underwriting insurance company no evidence was provided to confirm that the insurance premiums were actually remitted to the principal Company by the agent.

- In addition to the premium of Kshs.964,797.00 for vehicle KBV 315K, Kshs.279,000.00 was paid in respect of pre-charge of excess fees. No satisfactory explanation was provided for the extra payment.

The County Government should obtain policy documents to support the premiums paid and the basis for the pre-charge excess fees of Kshs.279,000.00.

iii) Unauthorized payments

Review of Contract records indicated that goods totalling Kshs.6,861,500.00 which were not included in the original tender were procured without approval by the tender committee. The quantity of the additional goods was more than the 10% allowed by the procurement regulations.

The County Government should confirm the propriety of the unauthorized payments and account for them.

1.3.2 Vihiga County Assembly

1.3.2.1 Sitting Allowances

During the period under review, the county made payments to County Assembly Committee members in respect of sitting allowances amounting to Kshs.14,040,088.00. However, no supporting evidence was availed to confirm attendance and deliberations of the meetings.

Under the circumstances, the propriety of this expenditure of Kshs.14,040,088.00 cannot be confirmed. The accounting officer should fully account for the unsupported payments.

1.3.2.2 Travelling and Subsistence Allowance

The County made payments amounting to Kshs.3,204,310.00 in respect of travelling and accommodation. No evidence was availed to confirm how this expenditure was incurred.

The Accounting Officer should fully account for the unsupported payments.

1.3.3 Vihiga Municipal Sub County

1.3.3.1 Unsupported Expenditure

The audit observed that during the period under review, payments amounting to Kshs.2,872,589.00 for various supplies to the County were made without supporting documents. The expenditure of Kshs.2,872,589.00 could therefore not be confirmed.

The Accounting Officer should therefore fully account for the unsupported payments.

1.3.3.2 Sub County of Luanda

1.3.3.3 Unsupported Expenditures

Further, during the period under review, payments amounting to Kshs.890,916.00 were made for procurement of tyres, office furniture and communication equipment. However, the relevant documents relating to procurement, initiation, processing and receiving were missing.

The Accounting Officer should account for the unsupported payments of Kshs.890,916.00.

1.3.3.4 Information Systems Assessment

1.3.3.5 Hardware

Vihiga County had received nineteen (19) computers and (19) UPS from The National Treasury (IFMIS Department) which were meant for IFMIS and one (1) computer from Central Bank of Kenya for G-Pay. However, it was reported that seven (7) of these computers were faulty and were not in use by the County.

1.3.3.6 Integrated Financial Management Information System (IFMIS)

The audit found that IFMIS installation and setup had been done at the Vihiga Finance and Administration offices. The management indicated that IFMIS and G-PAY users had been trained on use of the softwares. The budget planning module was also being utilized. However, the procure-to-pay module was not in use and payment processes were carried out manually. The main reason for not using IFMIS for payment processing was attributed by management to poor connectivity.

It was not clear when management was planning to have the internet connectivity problem resolved.

1.3.3.7 Local Authority Integrated Financial Operations Management System (LAIFOMS)

LAIFOMS in the County had previously been installed in Vihiga County Council. However, as at 19 September 2013, LAIFOMS was not operational which resulted to the County's revenue collection process being manual.

A review of the system at the Municipal council of Vihiga revealed that there was an under-banking of Kshs.5,707,125.00 between 2 July 2012 and 11 March 2013.

1.3.3.8 Integrated Payroll and Personnel Database (IPPD)

The County successfully completed the implementation of IPPD and which is being used for payroll and human resource data processing.

Interrogation of the system revealed that there was no segregation of duties to prevent the system users from having conflicting rights. The payroll manager for

instance had the rights of the system administrator, human resource data and payroll processing rights.

Further analysis of data revealed that the system lacked validity checks which lead to inaccuracies in data capture. Some of the examples are pointed out as below:

- Five (5) officers tax pin numbers were incorrect
- 28 Officers had no date of posting
- 188 officers with no date of retirement indicated
- 8 officers had 'xxxx' indicated as their designation code
- 140 officers had no date of increment shown
- 43 officers had duplicate accounts
- One officer had incorrect ID number

1.3.3.9 IT Control Environment and ICT Governance

- Audit of the County IT control environment and ICT governance revealed that the County lacked IT governance documentation such as; ICT Strategic Plan, ICT policies and procedures, the ICT assets register, Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP). There was also no ICT Steering Committee in place. Further, the County had no ICT staff to support its IT operations.
- i. It is recommended that the management should ensure that all Sub-County Offices should have adequate IT infrastructure and Local Area Network and staffing to facilitate automation of the County operations.
- ii. After operations are automated, the management should ensure that an IT Steering Committee is constituted.

1.4 CONCLUSION

The foregoing observations clearly indicate that the process of taking over the assets and liabilities, including staff of the former Councils was not properly handled due to what appears to be lack of leadership from the Transition Authority who had the responsibility to ensure a smooth and seamless transition process. The County Government should however ensure full control of its functions, including revenue collection, recording and proper accounting for the same while awaiting guidance from the National Treasury on the accounting and reporting systems to be developed by the Public Sector Accounting Standards Board in accordance with Section 194 of the Public Financial Management 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 attached.

A handwritten signature in black ink, appearing to read 'E. O. Ouko', with three dots below the first letter of the last name.

Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

21 March 2014

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

MAIN REPORT

1.0 Introduction

The County Government of Vihiga took over the defunct Local Authorities namely; Vihiga Municipal Council, County Council of Vihiga, County Council of Luanda, following the General Election on 4 March 2013. The County Government was established to carry out the devolved functions to the County.

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

1.1 Terms of Reference

The Office of the Auditor-General is an independent office mandated by Article 229 of the Constitution to audit the accounts of the National and County Governments. In this regard the office planned an audit of the Vihiga County with the following terms of reference:

- Verification of cash and bank transactions held at various 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 to 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 the Transition Authority.
- Check procurement procedures as per the Public Procurement and Disposal Act 2005 and Regulations of 2006.
- Check current debtors and suppliers balances.
- Check 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 4 March 2013.
- Check for ghost workers in IPPD payroll.
- Check for irregular borrowings, overdrafts and payment of non-existing loans.

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

1.2 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 minutes for the meetings where there was resolution affecting management of cash.
- Physical inspection/verification.
- Verification of the bank reconciliation statements as at 30 June 2013.

2 DETAILED FINDINGS

2.1 County Government of Vihiga

2.1.1 Handing Over of Assets and Liabilities

According to Ministry of Local Government letter Ref.MLG/1333/TY/52 dated 18 February, 2013, The Clerks as the Chief Executive Officers of the Local Authorities are required to ensure that there is proper handing over to the incoming County Governor. As part of the handing over, clerks were expected to ensure that statements of assets and liabilities were prepared as at 28 February, 2013.

Assumptions underlying the debt management strategy and an analysis of the sustainability of the amount of the actual and the potential debt was to be included in the statement. The circular also required full disclosure of outstanding debts as at 28 February 2013.

As at the time of audit, all the assets and liabilities that belonged to the defunct Local Authorities within Vihiga County had not been handed over to the County Government.

Further, there was no debt management strategy in place.

The process of transferring all assets and liabilities that belonged to the defunct local authorities within Vihiga County should be finalized.

The Liabilities of the County should be established and settlement of the same should commence.

The management should also confirm the debts owed to the county and necessary actions taken to recover them be taken.

2.1.2 Assets Register

During the audit, the following weaknesses were observed:

- i) Examination of records revealed that the asset register was not well maintained as it lacked details of office furniture and equipment that were inherited from the defunct local authorities. The assets were described as “various” with no analysis or breakdown given of the specific assets.
- ii) Details relating to cost, engine numbers, chassis number of motor vehicles, motor bikes, tractors, tractors exhausters and Lawn Mower that were inherited from the defunct local authorities were also missing in the Fixed Assets Register.

The County Government should prepare and maintain a proper fixed assets register containing all the necessary details relating to its assets.

2.1.3 Integrated Financial Management Information System - (IFMIS) and G-PAY

The audit found that the County uses manual system in processing information because it is not connected to IFMIS and G-PAY.

Connectivity of IFMIS and G-PAY should therefore be undertaken in the county and staff IT capacity improved to have the systems fully operationalized.

2.1.4 Accounting Records

The audit found that the main Cash Book and Vote book maintained were not properly completed. Further, some of the payment vouchers did not have vote book certificate confirming availability of funds against the chargeable items. This makes it difficult to control expenditure on items and poses risks of over- expenditure on items and misallocation of funds.

All the necessary entries should therefore be done in the books of account and supporting documents should also be provided. The management should ensure accurate and complete records are maintained to track expenditure on all items.

2.1.5 Integrated Payroll and Personnel Database (IPPD)

Examination of the payroll revealed that some of the information captured in the payroll was incomplete and inaccurate. An example of this was noted in the month of May 2013 where basic salary and allowances for 36 members of staff were not captured. Further, some items in the payroll appeared more than once while some allowances were totally omitted from the payroll. In addition, the pay slip for the month of July 2013 for one member of staff indicated an erroneous gross pay of Kshs.2,419,200.00 instead of Kshs.349,200.00.

The county government should do a complete data cleansing to rectify the errors. Further the staff should be trained to improve efficiency in payroll preparation and management.

2.1.6 Imprests

2.1.6.1 Imprests not Captured in the Imprest Register – Kshs.3,075,676.00

Examination of County imprest records revealed that temporary imprest amounting to Kshs.3,075,676.00 had been issued to staff but not entered in the imprest register as at time of the audit.

2.1.6.2 Unaccounted for Imprest – Kshs.600,000.00

Further, during the period under review an officer of the county was issued with Imprest amounting to Kshs.600,000.00 vide Imprest Warrant No. 17126/3 of 28 June 2013. Although the imprest was reflected on the Imprest Register as having been accounted for there was however no reference to any payment voucher to support the surrender. The reference document indicated in the register was also not availed for support of the payment.

The county should institute a proper system of issuing and accounting for imprests as required by the Public Financial Management Act, 2012.

2.1.6.3 Fuel Deposits Not Properly Accounted For – Kshs.1,200,000.00

A deposit of Kshs.1,200,000.00 for supply of fuel for the county was made. However, it was not possible to confirm whether the fuel had been drawn against this deposit due to lack of records such as detail order and work tickets to show how the deposit was utilized during the period under review.

The county should prepare details to support the utilization of the fuel deposits against the amount deposited.

2.1.6.4 Unsupported Payments – Kshs.946,865.80

Examination of payment vouchers showed that vouchers amounting to Kshs.946,865.80 were not supported by relevant documents to confirm validity of payments made.

The management should provide all the supporting documents to confirm authorization of the payments of Kshs.946,865.80.

2.1.6.5 Purchase of Motor Vehicles KBV 315K and KBU 748T

Motor vehicle reg. No.KBV 315K and KBU 748T were purchased vide voucher number 161 for Kshs.16,863,954.00 and unnumbered voucher for Kshs.10,600,000.00 respectively. However, the following observations were made:

- There were no minutes indicating specifications for the required vehicles
- Logbooks for the above vehicles were not availed for audit verification and management claimed that they were yet to obtain the logbooks. Under the circumstances the ownership of these two vehicles could not be confirmed.
- Pre delivery inspection report for KBU 748T was not availed for audit review
- According to KRA records availed, KBV 315K's year of manufacture was 2013 while pre-delivery inspection report indicates the year of manufacture as 2012
- KBU 748T has an engine capacity of 3000cc and was allocated to the speaker of the County assembly whose entitlement is a vehicle of not more than 1800cc.

The county government should pursue the issuance of logbooks of its vehicles to ensure ownership of the vehicles.

In addition proper and accurate records for motor vehicles should be maintained and allocation of the county vehicles should be in line with the Salaries and Remuneration Commission guidelines.

2.1.6.6 Motor Vehicle Insurance Services - Kshs.2,256,140.00

During the period under review, a total of Kshs.2,256,140.00 was spent on payment of insurance premiums covering vehicles under the county. These premiums were paid through an Insurance Broker who was contracted to offer insurance services. However, the following anomalies were noted:-

- Although a total amount of Kshs.2,256,140.00 was paid to the agent for transmission to the underwriting insurance company, no evidence was seen to confirm that the premiums were remitted to the principal by the broker.

- In addition to the premium of Kshs.964,797.00 for vehicle KBV 315K, an additional Kshs.279,000.00 was paid in respect of pre-charge excess fees. The management did not give satisfactory explanation for the payment.

2.1.6.7 Payments Supported by Photocopies of Documents - Kshs.612,450.00

Examination of payment vouchers revealed that payment vouchers amounting to Kshs.612,450.00 were supported by photocopied invoices and cash sales. It was not clear why original documents were not attached to support the payments made. The validity of this expenditure could therefore not be confirmed.

2.1.6.8 Irregularities in Procurement of Laptops and ICT Related Equipment Kshs.6,861,500.00

Audit review of contract records indicated that ICT related goods worth Kshs.6,861,500.00 which were not included in the original tender were procured without the tender Committee approval. The quantities for goods revised were more than the 10% allowed by the procurement regulations.

In addition, this procurement was made using quotations but should have been done through an open national tender. Scrutiny of the procurement records also showed that there were no specification for various computers and laptops purchased.

The audit further found that the County has not constituted a Technical Evaluation Committee hence goods and services procured were not evaluated after they are supplied giving room for procurement and payment of substandard goods.

The county should adhere to the requirements of the public Procurement and Disposal Act, 2005.

2.1.6.9 Consultancy Services – Kshs.5,000,000.00

During the period under review, the County government awarded a contract to a consultancy firm at a cost of Kshs.5,000,000.00. Although the management indicated that this service was provided, no evidence was availed to confirm that the consultants carried out the work fully as per the specifications of the contract.

The management should ensure that services are rendered in line with consultancy specifications so as to achieve the objective for which the Consultancy was sought.

3.2. County Assembly

3.2.1 General Observation on Internal Controls

During the audit, it was observed that the County Assembly had not instituted a system of Internal controls as required by the Government Financial Regulations and Procedures. Various payment vouchers and claim forms were not subjected to examination, authorization and approval by the relevant departmental heads. In

addition, there was no vote book maintained to ensure expenditure control and the cashbook in use does not capture all the receipts and payments as expected.

The audit also found that some payment vouchers lacked serial numbers and necessary supporting documents making it difficult to confirm the validity of the payments.

Further, there was no proper segregation of duties and responsibilities and all the transactions were done by the Clerk to the Assembly. Thus the system of internal control's weak and open to abuse.

The County Assembly should put in place proper systems of internal control to ensure proper authorization of payments. Further, all relevant documents should be maintained for proper accounting of the county transactions.

3.2.2 Payment of Sitting Allowances – Kshs.14,040,088.00

During the period under review, an amount of Kshs.14,040,088.00 was spent on payments of sitting allowances to the County Assembly Committee members. However, it was noted that although the payment vouchers were supported by lists of payment to the bank, the payments were not supported by committee minutes and attendance registers for the committee meetings held during the period.

Under the circumstances, the expenditure of Kshs.14,040,088.00 related to sitting allowances cannot be confirmed.

The County Assembly should establish systems of maintaining records of meetings held by its members to ensure proper accountability of County funds.

3.2.3 Irregular Payment of Responsibility Allowance – Kshs.160,000.00

Examination of payroll records for the months of July and August, 2013 revealed that a total of Kshs.160,000.00 was paid to the Speaker of the Assembly as responsibility allowance in excess of his approved /consolidated salary of Kshs.225,000.00. There was no evidence availed to show approval for payment of the extra Kshs.160,000.00.

In the absence of any approval for payment of responsibility allowance the payment of Kshs.160,000.00 is irregular and should be recovered from the officer.

3.2.4 Unsupported Travelling and Accommodation Expenses Kshs.3,204,310.00

Examination of payment vouchers revealed that on various dates between April and June, 2013 a total of Kshs.3,204,310.00 was paid to officers in respect of travelling and accommodation allowances while attending meetings and seminars in different venues. The validity of the payment could not be confirmed due to the following:-

- i) The expenditure was not fully supported by relevant approvals and lacked supporting details on travel destinations.

- ii) Specific approval from head of finance allowing such payments was not indicated on the payment vouchers.
- iii) Some payments were made to officers for duties they are normally expected to carry out under the substantive appointments for which they are employed.
- iv) In other cases, the mode of travel to the intended destinations were not indicated.

Further, there was no documentary evidence to show authority for hire of private vehicles. In the absence of relevant approvals for these payments, the expenditure of Kshs.3,204,310.00 is in doubt.

The Assembly should put in place a proper system of control for authorization of payments and procurement of services.

2.2 Municipal Sub County of Vihiga

2.2.1 Cash and Bank Balances

The Transition Authority directed all bank accounts operated by the defunct Local Authorities to be closed by 28 February, 2013. The audit however, found that the Municipal Council of Vihiga did not close ten (10) bank accounts operated by the council in five banks as directed. Further, up to date bank statements for these accounts were also not availed for audit verification. Bank reconciliation statements were also not prepared by the County to confirm cash and bank balances as at the time of the audit.

The county should implement the directives of the Transitional Authority and prepare up to date records for cash and bank balances.

2.2.2 Revenue

Analysis of the counterfoil receipt book registers revealed that some receipt books of the defunct Municipal Council of Vihiga were not surrendered even after the introduction of the County Government receipt books. This poses a risk of the county losing revenue through use of a parallel receipting system. The county should therefore streamline the Revenue Collection Systems.

2.2.3 Handing Over of Assets to the County Government

At the time of audit, the Sub-County had prepared a handing over report of assets and liabilities. However, physical verification revealed that:

- i) Furniture and equipment valued at Kshs.398,500.00 could not be physically verified.
- ii) The existence of one trailer that was included in the assets register could not be confirmed.

The County government should confirm the existence of these assets and reconcile the handing over reports with the assets register.

2.2.4 Unsupported Payments of Kshs.2,872,589.00

The audit further found that the County in the months of February and March 2013 had procured goods and services for various items at a cost of Kshs.2,872,589.00. However, this expenditure was not supported by relevant documents.

The management should therefore account for the expenditure of Kshs.2,872,589.00.

2.3 Vihiga Sub-County

2.3.1 Irregular Transfer of LATF Funds to County Revenue Fund Account

It was observed that the Local Authority Transfer Fund (LATF) account No. 1249103 at Barclays bank was closed on 5 March 2013 and an amount of Kshs.58,748,932.00 in respect of LATF's second disbursement transferred to the Vihiga County Fund account no. 1140749552.

It was however, not explained why these funds which were meant to undertake specific assignments as per the LATF Act had not been utilized for the intended purposes.

The County should ensure that the amount of Kshs.58,748,932.00 transferred to it is used for the budgeted purposes in line with the Public Finance Management Act 2012.

2.3.2 Cash and Bank Balances

It was observed that the bank accounts operated by the defunct County Council of Vihiga were not closed as at 28 February 2013 as directed by the Transition Authority.

No explanation was given by the county for the non-compliance.

The county government should finalize closure of the old bank accounts and ensure the amounts are transferred to its County Revenue Fund Accounts.

2.3.4 Revenue

Analysis of the monthly abstracts of revenue receipts for the period between 1 March and 30 June 2013 showed a total revenue of Kshs.7,948,490.00 while that of the same period the previous year was Kshs.8,453,835.00. This was a reduction of Kshs.505,345.00. Further, the former County Council of Vihiga's receipt books were still in use as at 30 June 2013. No explanation was given for the drop in revenue collection.

The management should ensure that all its revenue is collected using revenue receipts for the County Government.

2.3.5 Handing Over of Assets to the County Government

Review of the handing over report dated 7 November, 2012, showed that, item number 5 - (Furniture, fittings and Equipment) did not have details of the individual items. These items were also described as “various” without specific item details. It was therefore, not possible to carry out any physical verification to confirm the assets indicated in the report.

It is recommended that the sub-county should adhere to guidelines issued by the Ministry of Local Government on the format to be adopted for preparing the handing over report. Further, all assets should be properly identified, recorded and handed over to County Government.

2.3.6 Creditors/ Accounts payable

Examination of the creditors’ ledger maintained by the county showed that several transactions were not posted to the ledger as follows:

- i) Payments made to Kenya Local Government Workers Union (KLGWU) totalling Kshs.36,750.00 were not captured in the creditors’ ledger resulting in overstatement of creditors’ balance.
- ii) A balance of Kshs.50,000.00 relating to performance contract activities for the Ministry of Local Government and Kshs.1.6 million on account of KRA brought down to 1 July 2012 were not disclosed as part of the creditors’ balance as at 28 February 2013.
- iii) Further, the creditors’ ledger also showed that an Insurance firm had a balance of Kshs.1,149.00 as at 1 July 2012 while the financial records for the 2011/2012 show a balance of Kshs.1,149,000.00.

Under the circumstances, the creditors balance as at 30 June 2013 could not be confirmed.

It is recommended that the management should prepare, reconcile and update its records to reflect the true position of the Sub-County creditors.

2.3.7 Debtors/ Receivables

Examination of the County debtors’ ledger revealed that the Contribution in Lieu of Rates (CILOR) balance as per 2011/2012 accounts was reflected as Kshs.5,214,800.00 while debtors’ schedule and ledger show the balance of Kshs.2,283,614.00. as at July 2012. Further, the management did not make a provision for bad and doubtful debts as at 30 June 2012. In addition the debtors ledger was not updated to show the correct position of debtors as at the time of audit.

It is recommended that the management should reconcile its records on debtors to reflect the true position of debtors in its books.

2.4 Luanda Sub County

2.4.1 Creditors Balances

Review of the financial statements for the Sub-County showed that as at 30 June 2012, there was outstanding audit fees payable to KENAO of Kshs.2.4 million. Additional audit fee invoice of Kshs.348,000.00 was raised in December 2012 as per the records bringing the amount to Kshs.2,748,000.00. The audit fee balance reflected in the sub county's accounts was Kshs.1,500,000.00 but no supporting evidence for payments were availed for audit verification and it was not clear how the balance had reduced to Kshs.1,500,000.00 from Kshs.2,748,000.00.

Further, the creditors' records revealed that as at 30 June 2012, the Sub- County did not owe KLGWU any dues although records show Kshs.75,090.00 as outstanding in the 2011/2012 financial statements.

Due to these numerous inconsistencies in the sub-county records, it was not possible to confirm the actual position of outstanding creditors.

It is recommended that the management reconciles its records to ascertain the true position of its creditors.

2.4.2 Debtors/ Receivables - Kshs.7,124,917.00

Similarly the debtors records had inconsistencies between the debtors' balances disclosed in the County records as at 28 February 2013 and the supporting schedules as well as debtors confirmations. Under the circumstances, the accuracy of the debtors balance of Kshs.7,124,917.00 cannot be confirmed.

It is recommended that the management should carry out a reconciliation of the debtors balances to confirm the correct position of its debtors.

2.4.3 Travelling and Accommodation Expenses – Kshs.524,400.00

Examination of records showed that claims amounting to Kshs.524,400.00 had been paid to officers on official duty outside the council's jurisdiction. However, details of the duties carried out, appropriate approval for per diems and grades for the staff were not indicated on the claim forms. Under the circumstances, it was not possible to confirm the validity of the expenditure of Kshs.524,400.00.

2.4.4 Cash and Bank Balances

The audit also found that the bank accounts operated by the defunct Town Council of Luanda were not closed as at 28 February 2013 as directed by the Transition Authority.

No explanation was given for non compliance to the Transition Authority guidelines on closure of bank accounts.

The management should implement the guidelines and directives of Transition Authority on operation of County bank accounts.

The records shows that revenue collected for the half year ending 30 June 2013 was Kshs.2,622,267.00 and not Kshs.2,468,747.00 shown in the revenue summary availed. A variation of Kshs.153,520.00 has not been reconciled.

2.4.5 Movable Assets

2.4.5.1 Handing Over to County Government

At the time of the audit in September, 2013, Luanda Sub-County had not prepared a proper handing-over report. A forwarding letter, dated 5/12/12 Ref. TCL (ADM/1/39 VOL.1/77 from the Town Clerk to the Regional Local Government Officer, Western Province, showed an attached list of Assets and Liabilities. However, no details of office furniture and equipment, and office computers were availed for audit verification. It was, therefore, not clear which items were included in the two categories of assets.

Under the circumstances, it was not possible to verify the actual assets handed over to the Luanda Sub-County.

2.4.6 Ownership of Sonalika Tractor - KBR 841U

Audit of motor vehicle records revealed that the ownership of the Sonalika Tractor by the County was not supported by a log book. Although management claimed that the logbook had been surrendered to Kenya Revenue Authority for verification, no evidence was availed to support their claim. Under the circumstances, ownership of the Tractor by the county could not be confirmed.

2.4.7 Unsupported Payments for Procurement of Goods – Kshs.890,916.00

During the period under review, goods amounting to Kshs.890,916.00 comprising of office furniture and communication equipment were procured. However, the relevant documents relating to procurement process were not availed for audit verification. It was therefore, not possible to confirm that the procurement of the goods was in line with the procurement regulations and procedures.

2.5 Information Systems Assessment

2.5.1 Hardware

The County received nineteen (19) computers and nineteen (19) UPS from The National Treasury (IFMIS Department) which were solely to be used for IFMIS and one (1) from Central Bank of Kenya (CBK) for G-Pay. However, out of the nineteen (19) computers, seven (7) were found to be faulty at time of audit. No indication was given by management of the plans to repair the seven (7) faulty computers.

2.5.2 Servers and Network Connectivity

The County had installed one LAIFOMS server at Vihiga County Assembly and one IPPD server at the Vihiga Municipal council.

However, there is no established Wide Area Network at the County to connect various Sub-County offices.

The lack of an established network may hinder the automation of the County's ICT systems and processes.

The management of the Sub-County should ensure proper utilization of ICT infrastructure and LAN to facilitate automation of its systems and operations.

2.5.3 Intergrated Financial Management Information System (IFMIS)

The audit found that IFMIS installation and setup had been done at the Vihiga Finance and Administration offices. However, the Procure to Pay module was not in use and all payment processes were carried out manually. The reason for non automation of the payment process through IFMIS application was attributed to low level of internet connectivity at the sub county.

The management should look for ways of resolving the low connectivity problem to ensure full migration from manual to automated processes in the sub county.

2.5.4 Local Authority Integrated Financial Operations Management System (LAIFOMS)

LAIFOMS in the County had previously been installed in Vihiga County Council. However, as at 19 September 2013 County's revenue collections was being done manually although staff had been trained on its use.

An analysis of the data extracted from the system of the sub-county revealed that officers of the county were not fully utilizing the LAIFOMS Receipting Module where all monies received are supposed to be banked and the corresponding banking slips posted in the system.

Review of the system at the Municipal Council of Vihiga revealed the following anomalies:

- Out of Revenue collections of Kshs.85,113,5117.00, there was an Under-banking of Kshs.5,707,125.00 for the period between 2 July 2012 and 11 March 2013.
- Further a 93% decline in revenue collected between period of 2 November and 16 May 2013 was observed. Management did not explain how the under collection occurred.

It is recommended that the county management should ensure full operations of the LAIFOMS in the county for proper accountability of its revenue.

2.5.5 G-PAY

The audit further found that the County had received two computers from the Central Bank dedicated for G-Pay and five officers had been trained on its use. However, all payments in the County were still being processed manually. It was not clear why the management had not migrated its payment system to G-PAY.

2.5.6 Integrated Payroll and Personnel Database (IPPD)

The audit also found that the County has fully installed the IPPD system for payroll processing since July 2013. However, training on use of the system had been offered to only one officer who has the rights to process payroll, create, delete and edit compliment data as well as system administrator's rights.

In the absence of segregation of duties these rights and privileges are conflicting and the system lacks proper controls.

In addition review of the data that was migrated from LAIFOMS to IPPD lacked completeness and validity checks as detailed below:

- Five (5) officers had incorrect tax pin numbers
- 28 officers had no dates of posting
- 188 officers did not have details on date of retirement
- 8 officers had indicated xxxx as their designation code
- 140 officers had no date of increment
- 43 officers had duplicate accounts
- One officer had incorrect ID number

It is therefore recommended that the county management should carry out a data clean-up of its human resource data to ensure integrity of the payroll data.

2.5.7 IT Control environment

2.5.7.1 Staffing and Segregation of Duties

Review of the staffing showed that the County had no ICT staff to provide support to IT applications.

In the absence of ICT personnel it is not possible to adequately manage the IT operations in an efficient and effective manner.

2.5.8 Management of IT Operations

Audit of the management of IT operations revealed that the County lacked IT governance documentations such as; ICT Strategic Plan, ICT policies and procedures, ICT assets register, Business Continuity Policies (BCP) and Disaster Recovery Plans (DRP). Further, there was no ICT Steering Committee in place.

It is recommended that the management should put in place systems for IT governance to ensure proper operations in the County.

Conclusion

The foregoing observations clearly indicate that the process of taking over the assets and liabilities, including staff of the former Councils was not properly handled due to what appears to be lack of leadership from the Transition Authority who had the responsibility to ensure a smooth and seamless transition process. The County Government should however ensure full control of its functions, including revenue collection, recording and proper accounting for the same while awaiting guidance from the National Treasury on the accounting and reporting systems to be developed by the Public Sector Accounting Standards Board in accordance with Section 194 of the Public Financial Management 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.



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AUDITOR-GENERAL

Nairobi

21 March 2014