

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

REPORT

OF

THE AUDITOR–GENERAL

ON THE

FINANCIAL OPERATIONS

OF

THE COUNTY GOVERNMENT OF
KILIFI AND ITS DEFUNCT
LOCAL AUTHORITIES

FOR THE PERIOD
I JANUARY TO 30 JUNE 2013

TABLE OF CONTENTS

1.	EXECUTIVE SUMMARY	1
1.1	Introduction	1
1.2	Audit Objectives	1
1.3	Key Audit Findings.....	2
1.3.1	County Executive and County Assembly	2
1.3.2	Municipal Council of Malindi.....	4
1.3.3	County Council of Kilifi	7
1.3.4	County Council of Malindi	9
1.3.5	Town Council of Kilifi	14
1.3.6	Town Council of Mariakani	16
1.3.6.1	Non-current assets.....	16
1.4	Conclusion	20
1.	MAIN REPORT.....	21
1.1	Introduction	21
1.2	Terms of Reference.....	21
1.3	Methodology	22
2.	DETAILED FINDINGS.....	22
2.1	County Executive and County Assembly	22
2.1.1	Motor Vehicles	22
2.1.2	Procurement of Power Generators.....	22
2.1.3	Purchase of Second-hand Vehicle	23
2.1.4	Purchase of County Assembly Equipment.....	24
2.1.5	Cash Book	26
2.1.6	Vote Book Controls	26
2.1.7	Internal Controls	27
2.1.8	Irregular Claims	27
2.1.9	Unjustified Claims:	27
2.1.10	Record Maintenance	28
2.1.11	Refurbishment of Office	28
2.1.12	Irregular Procurements.....	28
2.1.13	Outstanding imprest.....	30
2.2	MUNICIPAL COUNCIL OF MALINDI	31
2.2.1	Non-Current Assets	31

2.2.2	Cash and Bank Balance	31
2.2.3	Debtors	32
2.2.4	Statutory Creditors	32
2.2.5	Staff Uniform Arrears.....	33
2.2.6	Bursaries	33
2.2.7	Audit Fees and NHC Deduction.....	33
2.2.8	Advocates Creditors	34
2.2.9	Project Creditors.....	34
2.2.10	LATF Projects.....	34
2.2.11	Operating Expenditure	36
2.2.12	Legal Expenses.....	36
2.2.13	Personnel Expenses.....	36
2.2.14	Outstanding Imprest	37
2.2.15	Operating Revenue.....	37
2.3	COUNTY COUNCIL OF MALINDI	38
2.3.1	Non-Current Assets	38
2.3.2	Cash and Bank Balance	38
2.3.3	Debtors	38
2.3.4	Creditors	39
2.3.5	Procurement of goods and services.....	39
2.3.6	Expenditure	39
2.4	TOWN COUNCIL OF KILIFI	43
2.4.1	Receivables.....	43
2.4.2	Revenue	44
2.4.3	Cash and Bank.....	44
2.4.4	Temporary Imprests.....	45
2.4.5	Creditors' Ledger.....	45
2.4.6	Property, Plant and Equipment.....	46
2.4.7	Expenditure from General Rate Fund.....	46
2.4.8	LATF Expenditure	47
2.5	MARIAKANI TOWN COUNCIL	48
2.5.1	Property, Plant and Equipment.....	48
2.5.2	Receivables.....	49
2.5.3	Revenue	49
2.5.4	Cash and Bank.....	50
2.5.5	Creditors	52

2.5.6	Local Authority Transfer Fund.....	52
2.6	Information Systems assessment.....	54
2.6.1	IT Control environment.....	54
2.6.2	Hardware	55

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

1. 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 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.

1.2 Audit Objectives

The audit covered the County Executive and County Assembly and the former Malindi Municipal Council, Town Council of Kilifi, Mariakani Town Council 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 teams faced several constraints during the audit, including delay in getting various documents and non-availability of key staff of the former Local Authorities. These constraints resulted in delay in concluding the audit within the planned timelines.

1.3 Key Audit Findings

1.3.1 County Executive and County Assembly

1.3.1.1 Procurement of goods and services

i) Motor Vehicles and Equipment's

The County Government and County Assembly of Kilifi between March 2013 and 30 June 2013 procured motor vehicles totalling Kshs.33,187,220.00 from various suppliers in Mombasa. However, these motor vehicles have not been registered and it is therefore not clear whether they have been recognized as property of the County Government of Kilifi. The motor vehicles need to be registered and recognized as property of the County Government of Kilifi.

ii) Irregular procurement of Power Generator

The County Government of Kilifi purchased two power generators amounting to Kshs.9,989,208.12 for the county government and for county assembly from a supplier. The payment was done through cheque numbers 0201 and 0202 of 28 June 2013. Scrutiny of the documents availed for audit revealed that these generators were single sourced. No tender documents were maintained and made available for audit review and the payments were done on the strength of a pro-forma invoice. The specifications for the construction of the generator house were also not provided. The management should provide tender documents and the specifications for the construction of the generator house for audit review.

iii) Purchase of Second Hand Vehicle

The Office of the Governor Kilifi, County procured a motor vehicle from a local supplier for Kshs.12,500,000.00. Available records indicate that this vehicle is a second-hand car, which had been previously registered in the name of the supplier. It is therefore evident that in the transaction, the County Government of Kilifi did not get value for money as the Government does not envisage purchase of second hand motor vehicles as the procurement procedures and advice of chief mechanical engineer's department were not sort.

The County should in future not purchase second hand motor vehicles and advice of chief mechanical engineer's department should be sort when procuring motor vehicles.

iv) Irregular purchase of voting and Hansard equipments

The County assembly purchased voting and hansard equipments from two local company at a cost of Kshs.3,879,667.00 and Kshs.3,851,000.00 respectively. There was no evidence to support how these firms were identified and contract documents were not availed for audit examination. The management should offer proper explanation on how expenditure was incurred from these firms without necessary supporting documents. No expenditure should be incurred without supporting documentation.

v) Purchases from Suppliers who have not been pre-qualified

Goods and services were bought by Kilifi County Government from un-contracted suppliers. Although it was explained that the suppliers were from pre-qualified list of some two institutions, it was observed that these were not pre-qualified by the two institutions. A review of transactions procurement totalling Kshs.28,915,662.00 could not be confirm whether the goods were actually supplied and services rendered. The management should offer proper explanation on how the expenditure was incurred from un-contracted suppliers and account for the goods and services with supporting documentation. No expenditure should be incurred without following the laid down procurement procedures and supporting documentation.

1.3.1.2 Non maintenance of proper books of account

As at the time of the audit, it was observed that the county cashier maintains a cash register but not a cash book. There were no clear columns for cash and cheque payments and the main cash book was not properly maintained. The basic accounting practices require books of account be written in the double entry system. Government Financial Regulation and Procedures requires a cash book to have daily summaries and analysis and be examined by a senior officer.

In addition, there was no vote book maintained for the commitment of local purchase orders, local service orders and imprest issued. The vote book control certificates and codes were also not being reflected on the payment vouchers. Proper records should be kept in line with Government Financial Regulation and Procedures and be enhanced by establishing strong internal control systems.

1.3.1.3 Internal Controls

The internal control systems in Kilifi County Government are not adequate. Payments were made without being subjected to vital controls such as examination of vouchers, internal audit, authorization, approval, vote book and cash book certification, documentation (requisition-user), accountability, completion and user certificates. The County Government should put in place strong internal control systems.

1.3.1.4 Irregular Claims

A total of Kshs.1,144,000.00 was spent in paying allowances to county assembly members attending a two-day budget management workshop and two-day workshop by a local non-governmental organisation. The nature of the claims in terms of period and location was not indicated on the available records. During the same period, another payment of Kshs.926,000.00 was paid for the travel allowances of county assembly members attending a three-day budget management workshop in Mombasa. These claims appear to have been paid for the same period and to the same payees.

Officers at the county governor's office were paid allowances that could not be explained. In one instance, an officer was paid Kshs.370,000.00 in what was indicated as 'surrender of imprest' yet the officer had not been previously issued with

imprest. Finance department officers were also paid Kshs.556,000.00 as four (4) days allowances on undisclosed duties and for a period that was not specified. Expenditure should be properly supported with the necessary approval documents so that eligibility of the payments can be verified and confirmed.

1.3.1.5 Non Maintenance of project records

The County Government of Kilifi engaged three (3) contractors to carry out refurbishment of the Kilifi County Council office block which is being converted to Kilifi County Governor's Office with payments totalling Kshs.8,178,115.00 having been made. The project file was not available for audit verification and therefore issues like site possession dates, site meetings' minutes, certificates and progress reports were not verified. Bills of quantities were not availed and contract documents for the main contractor were not verified. The propriety of this contract could therefore not be confirmed. Projects, works and services should be supported by proper records like Local Service Orders(LSO's),Bills of Quantity documents, project files, contractor's invoices, completion certificates from technical departments and inspection and acceptance committee reports. The Management of the County Government should make a detailed disclosure on the project procurement, cost, contractor identification and progress of the project.

1.3.1.6 Outstanding imprest

The county government had advanced Kshs.2,088,016.00 to various staff as temporary imprest. Financial Regulations and Procedures require that an officer should surrender outstanding imprest before additional imprest is advanced. It was observed that some officers were advanced imprest before they surrendered the previous ones. No explanation was given to warrant issue of imprests without surrendering of previous ones contrary to regulations. Outstanding imprest should be accounted for in line with Government Financial Regulations and Procedures.

1.3.2 Municipal Council of Malindi

1.3.2.1 Non-Current Assets

It was observed that (73) seventy three parcels of land recorded in the assets register did not have ownership documents like title deeds or allotment letters. The council had not managed to acquire titles for its land and it therefore appears no effort was being put in place to have the ownership documents acquired since the defunct council has ceased to exist and its responsibilities taken over by the County Government of Kilifi. The ownership of land amounting Kshs.390,415,794.00 could not be confirmed. Arrangement should be made with the Transition Authority to have the titles acquired and have the parcels of land transferred to the County Government.

1.3.2.2 Current assets and liabilities

i) Cash and Bank Balance

The defunct council did not close its bank accounts by 28 February 2013 as required and therefore funds were not transferred to Kilifi County Government revenue fund. A review of the cash and bank records made available indicated that the council obtained bank certificates for various accounts amounting to Kshs.17,021,474.00 as at 4 April 2013.

The defunct council continued operating these bank accounts until 3 June 2013 when instructions were given to have them closed. However it has not been confirmed when these accounts were actually closed and what balances were transferred to the county government revenue fund. Similarly no bank reconciliations have been made available for audit review confirming the balances. The bank accounts should be closed and the balances transferred to the County Government revenue fund. Monthly bank reconciliations should be done for all accounts to ascertain the correct balances as at 28 February 2013.

ii) Debtors

As per records presented for audit, debtors totalling Kshs.190,298,168.00 were handed over to the Kilifi County Government from the Municipal Council of Malindi. No proper records were maintained to ascertain the age of these balances to confirm how long they have been outstanding. Records should be made available to confirm the balance and proper handing over done.

iii) Creditors

(a) Statutory creditors

Analysis of the general ledger control account revealed a significant increase of statutory creditors. The balance as at 1 July 2012 was Kshs.31,507,107.80 and as at 28 February 2013, the creditors increased to Kshs.46,666,763.90. Towards the end of June 2013 the balance had increased to Kshs.63,733,251.00. No proper records to confirm these balances were available for audit review. Included in this list were staff uniform arrears of Kshs.10,645,718.00 which has been long outstanding and had a nil balance as at 1 July 2012. No explanation has been made to confirm this balance and how it arose. A list of staff to be issued with uniforms was not made available for audit review. Arrears in respect of interdiction lifting were included in this balance. The staff under interdiction were not disclosed and the status of their cases is not known. Appropriate creditors records should be maintained to include particulars of each creditor. Further, no creditor should be settled before validation of the balances.

(b) Advocates Creditors

Lawyers and advocates liabilities taken over by county government had an outstanding balance amounting to Kshs.2,671,624.00 during the year. Perusal of creditor's ledger for Nyawara and Company Advocates and Muturi Gakuo revealed a nil balance and Kshs.332,378.00 respectively. No documentary evidence has been

produced to confirm payment totalling Kshs.8,000,000.00 made to Nyawara Advocates during the year as per the creditors' ledger.

The status of these cases could not be confirmed and it was observed that there are pending cases which could not match with the advocates' creditors listing as the cases were described as dormant, not defended and pending. The defunct council had no legal officer to help the council on legal matters and all the cases' files were not provided for audit verification. The management of the defunct Council should make a detailed disclosure of the cases, the status of the cases confirmed. It is important that a confirmation letter is obtained from the courts to confirm whether the cases are either ongoing or have been settled.

(c) Project Creditors

The project creditors as at 30 June 2013 had a balance of Kshs.11,671,814.00. Out of this balance, Kshs.879,791.00 represented balances from the previous financial year. It has not been supported with documentary evidence to confirm whether these creditors were transferred to the county government. Appropriate creditors records should be maintained to include particulars of each creditor and be officially transferred to the County Government. Further, no creditor should be settled before validation of the balances.

1.3.2.3 LATF Projects- Renovation of Municipal Clinic

Examination of the project file revealed that the municipal council signed a contract agreement on 20 February 2013 for the renovation of the Municipal Clinic at a cost of Kshs.2,123,550.00. This was contrary to the resolution of the tender committee that the work be awarded to Rine Contractors Ltd on condition the company is in agreement with the engineers estimate of Kshs.1,794,250.00. No documentary evidence was produced to show how the tender committee resolution was not followed. The contractor was paid Kshs.821,322.00 there was no documentary evidence that the project has been completed. The Council should provide justification as to why the project has not been completed. All projects should be completed once initiated.

1.3.2.4 Expenditure

i) Legal Expenses

Amount totalling Kshs.7,143,134.00 was paid to law firms arising from claims for court cases against the council. Out of this amount, Kshs.3,970,759.00 was paid between 23 February 2013 and 4 April 2013. Comparison with the creditors ledger made available for audit review revealed that the amounts paid were not reflected in the ledger.

A law firm was paid Kshs.750,000.00. However the law firm was not in the creditors list and it has not been explained what services they rendered. Proper records should be maintained showing details like when the cases started, terms of engagement, mode of procurement used, payments made to date and the balance due. It is also

important that a confirmation letter is obtained from the courts to confirm that the cases are either ongoing or have been settled altogether.

ii) Personnel Expenses

The total wage bill stood at Kshs.141,556,897.00 for the period under review. It was observed from the payroll availed that the Municipal Council of Malindi irregularly paid Kshs.4,868,401.00 to various staff being leave allowance. However, no authority was availed for approval of the expenditure.

In September 2012, all council employees in the county were awarded a salary increment which was effected in February 2013 through a collective bargaining agreement. It appears that the Council could not sustain the increment as the June 2013 payroll salaries were paid with funds borrowed from the County Council of Malindi amounting to Kshs.11,037,104.00.

Expenditure incurred should be fully supported with the necessary approval so that eligibility of the payments can be verified.

1.3.2.5 Outstanding Imprests

The outstanding imprests amounted to Kshs.11,581,039.85 as at 30 June 2013. Out of this figure, Kshs.5,750,226.25 represents employees who are deceased, transferred or suspended. The balance of Kshs.5,830,813.60 was outstanding imprests of staff who were still on payroll. No details of staff holding this imprest was made available for audit review as the record made available comprised summaries per department.

Audit review of the payroll however, revealed that the long overdue imprests were not being recovered from the salaries as required. The payroll summary did not indicate monthly deductions effected from individuals who defaulted. The Council should abide by the Government Financial Regulations and Procedures which requires that imprest issued be promptly accounted for.

1.3.2.6 Revenue

Revenue analysis between collections against bankings revealed the Council had under-bankings of Kshs.10,817,531.00 for the period under review. The cashier analysis summary of revenue posted a figure of Kshs.288,425,801.00 as total receipts collected whereas the bankings showed Kshs.277,110,950.00. Proper records should be kept and reconciliations be done.

1.3.3 County Council of Kilifi

1.3.3.1 Motor Vehicles and Office Equipment

County Council of Kilifi had office equipment and motor vehicle amounting to Kshs.13, 576,350.00. However, as at the time of audit, the assets had not been transferred to the County Government of Kilifi. The Transition Authority should therefore conduct a proper handover of the Councils' books, records and property.

1.3.3.2 Local Authority Transfer Fund (LATF)

During the year, Kilifi County Council was allocated Kshs.202,396,364.00 for the Local Authority Transfer Fund (LATF). Out of the total amount, Kshs.94,000,000.00 was allocated to Local Authority Service Delivery Plan (LASDAP) and Head Office projects.

However during the audit, it was observed that projects totalling Kshs.30,913,100.00 were not undertaken as at 28 February 2013. No explanation was given indicating that these projects may end up not being undertaken. The management should offer a detailed explanation on the projects not implemented.

1.3.3.3 Irregular Payments

Available records indicate that the legal advisors, were irregularly paid Kshs.13,594,438.00 for the revision and preparation of by-laws. The firm had been awarded the contract in 2009 but there was no legally binding contract that was signed between the parties. The terms of reference and contract sum could therefore not be verified. The signed legally binding contract between the parties stipulating the terms of reference and contract sum should be made available.

1.3.3.4 Current assets and Liabilities

i) Cash and Bank balances

During the year, the County Council of Kilifi maintained eight (8) bank accounts. On 30 May 2013, five (5) of those accounts were closed and balances transferred to General Rate Fund accounts which continued to operate together with the LATF account and thus contravening instructions that all bank accounts be closed by 28 February 2013 and the balances be transferred to the County Revenue Fund account. The County Government should ensure that the transfer of funds to the County Revenue Fund is done. Monthly bank reconciliations should be done for all accounts to ascertain the correct balances as at 28 February 2013.

ii) Debtors

(a) Trade debtors

The debtors list produced by the council showed a debtors balance amounting to Kshs.182,711,689.50 as at 30 June 2013. However examination of the debtors list and other supporting documents revealed that the property land rates ledger showed that the balance as at 30 June 2013 stood at Kshs.1,995,610,215.00.

It was also observed that some of the property land rates' debtors had negative balances amounting Kshs.98,060.00 for which no explanation has been given. Circularization of debtor's was not done and it was therefore difficult to ascertain the validity and correctness of these balances. In addition, no age analysis was available to determine how long these debtors have been outstanding. Under the circumstances, the accuracy and full recoverability of the trade debtors as at 30 June

2013 could not be confirmed. Records should be made available to confirm the balances and proper handing over done

(b) Staff Imprest Kshs.1,625,000.00

During the year, outstanding staff imprest amounted to Kshs.1,625,000.00. Examination of the supporting documents revealed that the imprest register was not updated since August 2012 and it was therefore difficult to ascertain the amount of imprest issued and surrendered. The imprest warrants were not serialized and this made it difficult to ascertain the number of imprests issued as some officers were issued with imprests when they still had outstanding balances. Imprest should be issued in line with Government Financial Regulations and Procedures which requires that imprests be promptly accounted for.

1.3.3.5 Revenue

i) Requisitioning of accountable documents for revenue

No documents were available to show how the revenue officer and the collectors requisition for receipt books. While miscellaneous receipts are obtained from the government printer, other revenue collection documents are sourced from local printers. The management of the defunct council should explain and account for the receipt books.

ii) Control of Receipt Books

The council's counterfoil receipt book register did not indicate source of books and date of receipt of the books. Delivery notes from the supplier of such documents were not availed thereby creating the risk of other books being used to collect revenue which are not recorded. Receipt of revenue collection books from source, storage and issue to the users (collectors) should be recorded and records be properly maintained.

iii) Banking

During the period under review, it was observed that Kshs.1,756,395.00 had not been banked. It was further explained that the revenue was spent on normal operations and reimbursed on subsequent receipt of funds. A list of the vouchers paid for was not availed for verification. Revenue collected or received should be banked intact in accordance with Government Financial Regulations and Procedures.

1.3.4 County Council of Malindi

1.3.4.1 Non- Current Assets

Fixed asset register produced by the council was updated. However, the value of land amounting to Kshs.46,214,104.00 had no ownership documents such as title deeds at the time of audit. The one title produced for the dumpsite was in the name of an individual described as the seller as per certificate of search dated 5 December 2008, undated unsigned application for consent of sale of land control board and transfer of land form. In the circumstances, the ownership of non-current assets balance of

Kshs.46,214,104.00 could not be confirmed. Similarly the logbook for motor vehicle number KBG 269C Toyota Hilux double cabin was not made available for audit verification.

1.3.4.2 Current assets and liabilities

i) Cash and Bank balances

A review of the cash and bank records made available indicate that various accounts were held during the period ending 28 February 2013 had balances amounting Kshs. 49,888,586.00. Scrutiny of these accounts and other relevant records and correspondences revealed that the bank accounts had not been closed by 28 February 2013 as required by law and therefore no funds were transferred to Kilifi County Government Revenue Fund account. All bank accounts should be closed and balances transferred to the County Government Revenue Fund. Monthly bank reconciliations should be prepared for all accounts to ascertain the correct balances as at 28 February 2013.

ii) Debtors

The list of debtors taken over by the County Government had debtors totalling Kshs. 3,482,150.95. However, the County Council of Malindi debtors' ledger has not been properly maintained as it was not up to date and there were variances between reported debtors and the ledger.

Some staff debtors were not included in the list of debtors. Records should be made available to confirm the balance and proper handing over done.

iii) Creditors

Supplier's balances amounting to Kshs.5,094,634.10 were handed over to the County Government. However, perusal of creditors records revealed that these amounts stated as liabilities could not be verified in the ledger as the creditors' ledgers were not updated and all the balances disclosed in the handing over notes could not be traced in the creditor's ledger.

The Council did not have pending invoices to support these creditors as they relied on letters from creditors which could not be ascertained as the books were not properly kept and most of these creditors are long overdue. The Council was not able to explain National Hospital Insurance Fund deficit of Kshs.1,896,132.00.

Appropriate creditors records should be maintained to include particulars of each creditor and no creditor should be settled before validation of the balances is done.

1.3.4.3 Procurement of goods and services

i) Lack of an annual procurement plan

Scrutiny of procurement records produced for audit revealed that the County Council of Malindi did not have an annual procurement plan. The list of prequalified suppliers was not availed for audit review and the defunct County Council had no qualified procurement officers as the officer handling procurement issues was a clerical officer. As a result that most of the procurement was done using imprest system. The Council should operate with a procurement department, procurement plan and maintain a list of prequalified suppliers. Proper records should be maintained for all procurements done. Procurement of goods, works and services should always be done in accordance with the Public Procurement and Disposal Act, 2005 and Regulations of 2006.

1.3.4.4 Expenditure

i) Cash purchases

In the period under review a sample of three months revealed expenditure amounting to Kshs.1,849,385.00 had been incurred by the County Council of Malindi. The defunct Council was using the cash payments system instead of cheque system for making payments especially payments made to security officers manning the Gogoni collection point. There were no records to confirm how the officers manning this collection point were engaged and, therefore ,the rate used to pay these officers could not be established. The Management of the defunct County Council should make a detailed disclosure of how the officers manning the collection point were engaged and the use of cash payments instead of cheque system in effecting payments.

ii) Unsupported payments

The Council spent Kshs.150,000.00 for Nacada seminar in Nairobi by way of facilitating some staff to attend. However, no any documentary evidence was produced to ascertain the attendance of the said staff.

It was also observed that expenditure of Kshs.331,250.00 was incurred for the repair of Council vehicles and payment made vide payment voucher number 76/5 of 27 May 2013, cheque number 014108 and 54/5 of 17 May 2013 cheque number 014100. These payment vouchers were not authorised and the payee was not in the list of prequalified suppliers. The management of the Council should explain and account for the funds used.

1.3.4.5 Under-Banking of Revenue

The revenue module on LAIFOMS was not being used by the Council and as a result, auditors could not review the reports generated by the information system and, consequently, no explanation has been given concerning lack of use of LAIFOMS. Scrutiny of the revenue books and records revealed that the Council had an under

banking of Kshs.2,425,734.00. The management of the Council should account for the revenue not banked and disciplinary action taken against those unable to account for the revenue.

1.3.4.6 Imprest

The Council did not use the LAIFOMS to process the imprests and therefore it was difficult to extract information on outstanding imprests issued to employees from the system as at 30 June 2013 as the records made available were incomplete. It was observed that the register was not properly updated and imprests were being issued before previous ones were surrendered. Some imprests and advances were not being posted to the ledgers raising doubts as to the accuracy of the records maintained. Imprest should be issued and accounted for in line with Government Financial Regulations and Procedures.

1.3.4.7 LATF Projects

i) Construction of septic tank and soak away pit at Sosoni Dispensary in Bungale Ward project No CCM/LATF/2012/2013/018

Tendering through Quotations for the construction of septic tank and soak away pit were made and awarded. The supplier was notified vide letter dated 18 January 2013 of the award of the tender for supply of building materials after deliberations on minute number 002/0130 (awarding of supply of building materials) dated 18 January 2013.

The supplier made deliveries amounting Kshs.276,690.00. It was, however, observed that the supplier was not among the shortlisted companies in the list of prequalified suppliers and the council did not advertise for this category (supply of building materials). It was, therefore, not possible to confirm how the supplier was identified to supply the building materials as the supplier did not acknowledge the award by issuing acceptance letter.

The Works Officer had received imprest of Kshs.200,000.00 vide voucher numbers 2/3 of 01/03/2013 and voucher number 68/5 of 27/5/2013 for Kshs.100,000.00 each for the construction of two toilets at Mkondoni and Mjanaheri dispensaries. These toilets have not been completed to date.

Though the imprest request indicated that the pit will have block walling, it was noted that only a portion of the pit was actually done. The imprest of Kshs.200,000.00 taken by the Works Officers for this construction has not been surrendered to date.

The Council spent Kshs.476,690.00 on two pit latrines out of the four which were to be constructed. It was not clearly explained since March 2013 two toilets under direct supervision of the council have not been completed while funds were allocated and spent for the works. The management of the defunct Council should make a detailed disclosure on the project and have it completed.

ii) CCM/LATF/2012-2013/001; Construction of Two Classrooms at Katama Nursery School

The Council awarded contract for the construction of two classroom at Katama Nursery at a contract cost of Kshs.1,761,279.63. The contract period was to have been eight (8) weeks.

As at 25 June 2013, 65% of the works had been certified as completed valued at Kshs. 1,030,348.00 and paid in two certificates. Certificate number 1 for Kshs.475,545.00 and number 2 Kshs.554,803.00.

There was a contract period delay of over seven months from the time of contract award. There was no explanation as to the cause of the delay or any action the Council intended to take to ensure completion of the works as it was observed that the contractor did not construct the site store as provided for in the bill of quantities. The management of the defunct Council should have the project completed and account for the funds paid.

iii) CCM/LATF/2012-2013/006 Construction of Two Classrooms at Zhongwani Primary School

The Council awarded the contract for construction of two classes at Zhongwani on 3 January 2013 at a contract cost of Kshs.1,774,149.63. As per the bill of quantities, the contract duration was 45 days. As per payment certificate number 2, the works have been completed at 65%. This certificate was dated 25 June 2013. Scrutiny of the certificate showed that the certificate was prepared using figures of contract number CCM/LATF/2012-2013/001. Therefore the figure of retention money of Kshs.176,128.00 is not correct and it has not been explained how the figures of this contract were used to certify works for another contract. As at the time of audit verification the works were not complete as per the terms of contract. The management of the defunct council should make a detailed disclosure on why figures of another contract were used to certify works of another contract.

iv) CCM/LATF/2012-2013/012 Construction of a Dormitory at Fundissa Secondary School

This contract was awarded to a local company through Council quotations evaluation minutes dated 3 January 2013 at a contract cost of Kshs.1,444,860.00. As per the bill of quantities, the contract duration was eight (8) weeks from 18 January 2013.

It was observed that the contractor was paid the total sum of the contract with the last payment certificate dated 17 April 2013 of Kshs.260,075.00 through cheque number 102283 dated 27 May 2013 without completing the work as per the bill of quantities as the item required installation of 12 windows with burglar proofing at a cost of Kshs. 114,000.00. The windows were installed but the burglar proofing was not done. The Council processed the payment without considering from the project photographs that the burglar proofing was not done. The contractor has since moved out of site and as at the time of the audit the retention money was being claimed. No explanation has been provided to confirm when the work will be completed as indicated in the bill of

quantities and terms of contract. The management of the defunct Council should make a detailed disclosure on when the project will be completed.

v) CCM/LATF/2012-2013/013 Construction of Two Classrooms at Adu Secondary School

This contract was awarded to a local Ltd company through Council quotations evaluation minutes dated 3 January 2013 at a contract cost of Kshs.1,733,380.00 as per the bill of quantities and the contract duration was five (5) weeks from 18 January 2013. As at 19 April 2013, the contractor had only done 30% of the total work. The contract performance had delayed and the agreement document did not have any clause on what action the Council should take when such a delay arises. The project should be implemented without any undue delay. Contracts should have a clause of the action to be taken in case of a default.

1.3.4.8 Payment of Commutation of Leave Days

The County Council of Malindi paid 52 officers a total of Kshs.5,140,356.00 as commutation allowance on 27 June 2013. It was not clear whether all the officers had qualified for the allowance as required in the Collective Bargaining Agreement. The management of the Council should make a detailed disclosure on whether all officers qualified for the allowance. Allowances should be paid to qualifying only personnel.

1.3.5 Town Council of Kilifi

1.3.5.1 Current assets and liabilities

i) Debtors

The receivables ledger was not availed for audit review and therefore it was not possible to verify the value of receivables taken over by the County Government. Rates receivable could not be verified from the schedule availed for audit review as it did not indicate how the figures were calculated. Proper records should be maintained so that eligibility of figures can be ascertained and confirmed.

ii) Cash and Bank

The Council was directed by the County Government of Kilifi to close all its bank accounts except General Fund Account and transfer all the funds to Fund Account by 27 May 2013. The letter also required the Council to submit a report on the account and the bank balances.

The Council received a second directive from the County Government of Kilifi through letter dated 28 June 2013 to close the General Rate Fund Account and transfer all the remaining money to the County Revenue Fund account by 30 June 2013. However, and although letters directing the banks to close some accounts were availed, it could not be confirmed with certainty that all the accounts were closed. All bank accounts should be closed and balances transferred to the County Revenue Fund. Monthly bank reconciliations should be done to confirm the correct balances as at 28 February 2013.

iii) Temporary Imprests

Examination of imprest records for the defunct Kilifi Town Council revealed that Kshs. 1,385,801.00 advanced to the Town Council officers was still outstanding as at 30 June 2013.

The imprests were issued between the year 2009 and 2013. The copies of the imprests warrants issued were not produced for audit scrutiny. It was further observed that some officers were issued with additional imprests before having surrendered the ones previously issued. Imprests should be issued and accounted for using Government Financial Regulations and Procedures. No imprest should be issued before previous ones have been surrendered.

iv) Creditors

An audit examination of creditors' record maintained at the defunct Kilifi Town Council revealed that that as at 30 June, 2013 the council owed creditors amounts totalling Kshs.30,497,020.00. The creditors' bills were in respect of valuation roll, supply of goods, un-surrendered LAPTRUST collections and various services rendered to the Town Council. However, the invoices and certificates supporting the amounts owed to the creditors by the defunct Town Council were not produced for audit review. Appropriate records should be maintained for each creditor and no creditor should be paid without validation being done.

1.3.5.2 Non-current assets

It was observed that the Council was in possession of a number of assets whose ownership could not be confirmed. According to the asset report on 30 June 2013 revealed that the Council had assets amounting to Kshs.147,402,821.00 whose ownership could not be confirmed. It was also not possible to confirm whether these assets were officially handed over to the County Government by the defunct council because no handing over reports were availed for verification. Arrangements should be made with the Transition Authority and the assets officially handed over to the County Government.

1.3.5.3 Expenditure

i) General Rate Fund Expenditure

A scrutiny of general rate fund revealed that amount totalling Kshs.28,891,289.00 was spent between March 2013 and June 2013 without proper supporting documents. It was therefore not possible to confirm, the accuracy, authenticity and regularity of this expenditure. Scrutiny of the expenditure ledger revealed that the council continued to incur expenditure despite being defunct by 28 February 2013 as LATF account showed that Kshs.7,641,658.00 had been paid between March and June 2013.

It was further observed that the council spent Kshs.326,850.00 for the implementation of LAIFOM computer system. However the system has not been operational and the council was still operating on a manual system. Expenditure incurred should be fully

supported with the necessary supporting documentation so that eligibility of the payments can be verified and confirmed.

ii) Construction of Two Classrooms at Nzombere Primary School Kshs. 2,060,390.00

The Council awarded the tender for construction of two classrooms to M/s Frizel Investments Ltd at Kshs.2,060,390.00 with an initial payment of Kshs.184,716.00 made to the contractor on the 28 February 2013. Physical audit verification of the project found that the project had been done at the substructure level. The substructure was however incomplete and the contractor had abandoned the site leaving some materials. The contractor had not furnished the council with a performance bond therefore making it difficult for the council to enforce the performance against the contractor. The management of the Council should make a detailed disclosure on how the project will be completed.

iii) Maintenance of Projects Files

An examination of the Council's project files revealed that projects totalling Kshs. 28,349,742.00 undertaken during the year under review, had essential documents such as contract agreement, bills of quantities, programme of work, certificates of works, copies of payment documents, site meetings' minutes missing. Their verification was therefore not possible. Projects, works and services should be supported by Local Service Orders (LSO's), Bills of Quantities documents, project files, contractors invoices, completion certificates from technical departments and inspection and acceptance committee reports.

iv) LATF Projects not undertaken for the year 2012/2013

The council undertook various projects during the year 2012/2013 through the sponsorship of LATF. It was however observed roofing and flooring of Tezo Youth Polytechnic at a cost of Kshs.700,000.00 and construction of a drainage system at hospital ward at a cost of Kshs.1,000,000.00 was not carried out. No explanation has been given that this project under LATF could not be undertaken. A detailed disclosure on these projects should be made by the management of the defunct council.

1.3.6 Town Council of Mariakani

1.3.6.1 Non-current assets

It was observed that the council is in possession of a number of assets whose ownership could not be confirmed. According to the valuation report by a local company dated 30 June 2012 the council had land and buildings worth Kshs.256,168,900.00. However the ownership could not be verified in the absence of documentary evidence. It was therefore not possible to confirm whether the assets were officially handed over to the county government by the defunct Council because no handing over report was availed for verification.

It was also observed that the council acquired a 10 acres dump site at Mitangoni in Mariakani at a cost of Kshs.1,450,000.00. However, a part from the sale agreement availed for audit; no other documentary evidence was availed to confirm that the said plot is fully owned by the council. Ownership documents should be sought and transfer made to the County Government.

1.3.6.2 Debtors

i) Trade and Other Receivables

The town council of Mariakani maintains a receivables ledger which was not updated as at 30 June 2013. It was therefore not possible to ascertain the current year trade and other receivables figure.

Further as per a letter dated 16 July 2013, the council forwarded to the County Government of Kilifi a list of debtors as at 30 June 2013 amounting to Kshs. 104,992,741.00. However scrutiny of the same revealed that the debtors figure had been calculated out of various documents of the council and forwarded to the County Government for handover. Analysis of the figures indicated that correctness of some figures could not be ascertained. Appropriate records should be maintained to include particulars of each debtor and be handed over to the County Government.

ii) Cash and Bank

Scrutiny of cash and bank records revealed that cash books were not updated and therefore bank reconciliation statements provided could not be verified.

The council was directed by the County Government of Kilifi to close all its bank accounts except general fund account and transfer all the funds to Fund Account by 27 May 2013. The letter also required the council to submit a report on the same and the bank balances.

Similarly the council received a second directive from the County Government of Kilifi dated 28 June 2013 to close the general rate fund account and transfer all the remaining money to County Revenue Fund account by 30 June 2013. However, and although letters directing the banks to close some accounts were availed, it could not be confirmed with certainty that all the accounts were closed. All the bank accounts should be closed and transfers made to the County Government revenue fund. Monthly bank reconciliations should be prepared to confirm the correct balances as at 28 February 2013.

iii) Creditors

An audit examination of records maintained at the defunct Mariakani Town Council revealed that as at 30 June 2013, the Council owed creditor's an amount totalling Kshs.57,604,432.40. The creditors' bills were in respect of advocates fees, audit fee, valuation fee, supply of various goods and fuel and unsurrendered collections to LAP TRUST, COTU and LAPFUND. These bills were incurred between the year 2011 and

June 2013. Appropriate creditors should be maintained to include details of each creditor and no payment should be done before validation.

1.3.6.3 Revenue

The council collect cess fees on cash and credit basis, where the collector on the ground makes a summary of the lorries that are chargeable with their respective tonnage. However analysis of the cess collection revealed that alterations amounting to Kshs.48,700.00 on the invoice value were observed. This resulted to issuance of credit notes to reduce the invoice value whenever the client disputed the invoiced value. No documentary evidence was availed to confirm whether the alterations were authorized, and how the altered figures were arrived at.

Further analysis of cess fess collection indicated that some invoices raised with a revenue value of Kshs.2,436,100.00 were not captured in the LAIFORMs system of the council.

It was also observed that some cess fees amounting to Kshs.1,791,260.00 captured in the LIFORMs system of the council could not be traced to their original documents for verification of accuracy. Although it was explained that such collections were cash collection, no documentary evidence were availed for verification. The revenue should be accounted for and disciplinary action taken against those unable to account for the revenue collected.

1.3.6.4 Local Authority Transfer Fund

i) Purchase of Side Loader for Garbage Collection Truck Kshs.7,900,000

The council purchased a side loader from a local company at Kshs.7,900,000.00. An analysis of the tender documents revealed that the three firms had offered to supply trucks that had three different specifications. This therefore implied that the three had three different items that could not have been evaluated as one. Therefore awarding to any of the three would amount to single sourcing. It was observed that despite the situation the tender committee went ahead to award the tender to a contractor whose bid was the lowest. However it was observed that the council did not conduct a market survey to establish the prevailing market price. The budget for this item was Kshs.4,500,000.00 and the actual expenditure was Kshs.7,900,000.00 and therefore the council incurred an over expenditure of Kshs.3,400,000.00 without authority. Expenditure should not be incurred without budgetary support and approval. The management of the Council should make a detailed disclosure on the purchase of this side loader for garbage collection. Procurement procedures should be followed in any procurement.

ii) Incomplete Projects

During the year the council undertook project whose total cost was Kshs 8,873,952 and made payments totalling Kshs.3,980,200.00. However the projects were not completed as required.

iii) Planning of a Trading Centre

The council made payments through cheque number 201 amounting to Kshs.375,000.00 to physical planning officials for planning of various trading centers. The payment was not accounted for as the money was paid based on a budget and there was no evidence to show that the physical planning officials received the money. The management of the Council should account for the funds used and make available the planning details of the various trading centres.

1.3.6.5 Information Systems assessment

i) Hardware

The County had received nineteen (19) computers, eleven (11) special orange CDMA modems, 16 UPSs and one (1) from The National Treasury (IFMIS Department) which will be solely used for IFMIS. The Interim ICT Manager has not been able to carry out an assessment of the ICT Status and Infrastructure of the County. Further, there was no ICT register kept or assessment of the existing infrastructure done. A register should be kept for the existing infrastructure.

ii) Integrated Financial Management Information System (IFMIS) and G-Pay

IFMIS has been installed in the County and use Orange CDMA Modems to connect to IFMIS through the Treasury's Virtual Private Network (VPN). The Orange connectivity is fairly stable though users complain of frequent downtime.

The County had received one computer from The National Treasury which is dedicated for G-Pay. Two officers are trained on how to use the G-Pay system as signatories and one as the paying cashier. However, at the time of audit, the system was not being used and the County was still making payments manually through cheques. The IFMIS system should be operationalized and the County stops making manual payments.

iii) Local Authority Integrated Financial Operations Management System (LAIFOMS)

LAIFOMS had been installed in four of the five former councils of Kilifi and these were used for revenue collection. At the time of audit, the Kilifi Town Council was still running a manual revenue collection process.

There were under banking totaling Kshs.188,577,012.00 as per data extracted from the LAIFOMS system. The Head of Treasury explained that this was because Banking is done manually and the same may not have been cleared through the system to reflect the accurate position.

iv) Integrated Payroll and Personnel Database (IPPD)

The County has fully installed the IPPD system. A review of Human Resource master data revealed that some officers had invalid KRA Personal Identification Numbers captured in the system.

v) IT CONTROL ENVIRONMENT AND ICT GOVERNANCE

The County has an approved 2013/14 County budget, with the ICT department allocated Kshs 225 Million. The ICT Governance documentations and structure are under development.

1.4 Conclusion

The forgoing 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 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 ON THE OPERATIONS OF THE COUNTY GOVERNMENT OF KILIFI AND ITS DEFUNCT LOCAL AUTHORITIES FOR THE PERIOD 1 JANUARY TO 30 JUNE 2013

1. MAIN REPORT

1.1 Introduction

The County Government of Kilifi replaced three defunct Local Authorities namely Municipal Council of Malindi, Town Council of Kilifi and Mariakani Town Council. The Council was established after the 4 March 2013 general elections, to carry out the devolved functions set out in the Constitution of Kenya.

The audit was to verify County Government preparedness to receive and utilize devolved funds after the transition period and was conducted in the month of August and September, 2013

1.2 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 Government. In this regard the office planned an audit for the Kilifi County with the following terms of reference:

- Verification of cash and bank transactions held at 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 01 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 bank accounts as directed by Transitional Authority.
- Check Proper 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 month 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 minutes for the meetings where there was resolution affecting management of cash.
- Physical inspection/verifications
- Verify the bank reconciliation statements as at 30 June 2013.

2. DETAILED FINDINGS

2.1 County Executive and County Assembly

2.1.1 Motor Vehicles

The County Government and County Assembly of Kilifi procured motor vehicles totalling Kshs.33,187,220.00 between March and 30 June, 2013. The vehicles were purchased from various suppliers in Mombasa. However, these motor vehicles have not been registered and it is therefore not clear whether they have been recognized as property of the County Government of Kilifi.

The County Government purchased used vehicles contrary to Government Regulations which require that only new vehicles are purchased or when purchasing used vehicles, then inspection report from the Chief Mechanical Engineer of the Ministry of Public Works be obtained to confirm their mechanical status. No such report was obtained.

Recommendation

The motor vehicles need to be registered and recognized as property of the County Government of Kilifi.

2.1.2 Procurement of Power Generators

Procurement procedures are established to maximize economy, efficiency, promote competition and ensure that competitors are treated fairly.

The County Government of Kilifi purchased two power generators amounting to Kshs. 9,989,208.12 for the County Government and County Assembly with the following specifications:

Item	Quantity	Amount Kshs.
Cumin diesel power generator model C110D5e	2 Number	4,800,000
Gtec automatic changer over switch	2 Number	788,800
Supply and installation distribution panel c/w material labor accessories	2 Number	3,800,408
Construction of generator room	2 Number	600,000
Total		9,989,208

Scrutiny of the documents availed for audit revealed that these generators were single sourced. No tender documents were maintained and made available for audit review and the payments were done on the strength of a pro-forma invoice. The specifications for the construction of the generator houses were not provided.

Recommendation

The management should provide tender documents and the specifications for the construction of the generator houses.

2.1.3 Purchase of Second-hand Vehicle

The Office of the Governor Kilifi County procured a motor vehicle whose make was Toyota land cruiser, at a total cost of Kshs.12,500,000.00 which was paid for through cheque number 000210 of 28 June 2013.

Records available indicate that the vehicle was first registered in Kenya under registration number KBS 707G whose certificate is number S514078Y (original number 20122292186) on 21 June 2012 in the name of a local company.

It was further observed the purchase of a vehicle for the Governor was deliberated during the Tender Committee meeting of 27 June 2013, where the Committee was informed that three (3) firms were invited to quote for supply of the item. whose description was as follows. Toyota Land cruiser 200 series (V8), Cc460, fuel gasoline, automatic transmission with ac/ps pw/air bag/navi/tv/leather seats/8 seater/sunroof/4wd/back monitor/hid white in colour.

The meeting was informed that one firm did not respond. It was informed that the Governor required a vehicle and had given preferred specifications as of Toyota Land Cruiser 200 series (V8), and that the Governor had given consent for purchase of the said vehicle awaiting cabinet approval and ratification.

It was further indicated that the cost of a new vehicle from one of the firms was Kshs.16,562,973.00, while another firm was selling the same model but used at Kshs.12,500,000.00. Local Purchase Order (LPO) number 1976743 was issued to the firm on 27 June 2013 for supply of Toyota Land Cruiser, at Kshs.12,500,000.00. The firm acknowledged the order vide their document number 000001 of 26 June 2013 which indicated validity date as 27 June 2013 and issued a pro-forma invoice dated 28 June 2013 for payment.

It was observed that the Kilifi County Secretary had vide letter reference number KC/TENDER/001/VOL.1/13 dated 2 May 2013 addressed to the Governor, had raised concern over intention to procure second hand vehicles. The interim County Secretary had informed the Governor of the procurement procedures, and the guidelines provided by the Government's Chief Mechanical Engineer's Department in regard to procurement of various categories of motor vehicles in the public service. This advice appears to have been ignored and it is therefore not clear how the two firms were identified.

There was no file opened by the County Government for this motor vehicle and it was therefore difficult to confirm the contents of the pre-shipment inspection report referred as it was not made available for review. Similarly there was no pre-purchase inspection report, delivery letter and mechanical check-list on the vehicle.

It is therefore evident that in the absence of such vital information the County Government of Kilifi did not get the best value for money in this purchase as the Government does not envisage purchase of secondhand motor vehicles as the procurement procedures and advice of Chief Mechanical Engineer's Department were not followed.

Recommendation

The management should offer proper explanation on how a second hand motor vehicle was purchased. The advice of chief mechanical engineer's department should be sort when procuring motor vehicles.

2.1.4 Purchase of County Assembly Equipment

Some specialized voting and hansard equipment for County Assembly were purchased from two Mombasa firms. There is no indication how the two firms were identified, considering that such equipments are rarely used. The location of the firms could not be confirmed as none of their documents indicated the same as the contract documents were not availed despite the request to have them produced for audit review.

A local company was paid Kshs.3,879,667.00 through cheque number 000205 of 28 June 2013, being the cost of supplying the following various equipments.

<u>Item Description</u>	<u>Amount Kshs</u>
1 Audio Video Presentation Switcher	150,000.00
1 Power Amplifier HPS-1500 PRO	110,270.00
1 Digital Conference System D.C.S. 6000	250,200.00
2pieces Voting Control Unit D-1001	153,680.00
54pieces Goose Neck Microphones	1,123,740.00
1 Unit Microphone Management Software	192,100.00
1 Unit Conference Control Unit & Software	228,930.00
4pcs Loud Speakers	225,800.00
1 Channel Audio Mixers (30 Channel)	98,350.00
2pcs UHF Wireless Microphone	198,540.00
2pcs Digital Audio Recorder	100,000.00
1 Unit Server Computer HP Proliant DL 380GT	595,000.00
Total Amount	3,426,610.00
16% VAT	<u>453,057.6</u>
Total	<u>3,879,667.60</u>

As per Local Purchase Order numbers 1976722/3/4 of 21 June 2013, invoice of 28 June 2013 and delivery note of 23 July 2013, a local company was paid Kshs.3,851,000.00 through cheque number 000181 of 28 June 2013, being the cost of the following items;

<u>Items</u>	<u>Amount Kshs</u>
40 pieces Member of Parliament Voting unit-CONFIDEA DUI/L-CIV	2,800,000
2 sets 46" TV Monitor Panasonic @150,000	300,000
1 pc Desk Top computer HP ProliantHpe H8-1360T	165,000
1 pc 1KVA Smart UPS	90,000
Sub-Total	3,355,000
VAT 16%	<u>496,000</u>
Total	<u>3,851,000</u>

As per local purchase order number 1976725 of 21 June 2013, invoice number 160 of 2 June 2013 and delivery note of 30 July 2013 the cheques for both transactions were issued before delivery of the goods.

Minutes of the County Assembly Tender Committee meeting of 22 May 2013 indicate that the County Assembly Clerk had forwarded a list of four firms to be considered for supply of the items. Among the firms were the ones that were awarded the contract.

Recommendation

The management should offer proper explanation on how expenditure was incurred from these firms without necessary supporting documents. No expenditure should be incurred without supporting documentation.

2.1.5 Cash Book

The basic accounting practices require books of accounts to be written in the double entry system. Government Financial Regulation and Procedures require a cash book to have daily summaries and analysis, examined and audited by a senior officer.

As at the time of the audit it was observed that the County Cashier maintains a cash register but not a cashbook. No clear columns for cash and cheque payments were drawn. The main cash book was not properly maintained.

Most payments are direct cash to individuals without application of imprest. Cashbook certificates were not being completed on the payment vouchers. Cashbook numbers were also not reflected, as necessary for reference and control purpose.

Recommendation

Proper records should be kept in line with Government Financial Regulation and Procedures and be enhanced by establishing strong internal control systems.

2.1.6 Vote Book Controls

Vote book control requires that voted funds are entered into specific item folios, with funds for each item controlled separately indicating disbursement received, commitments, de-commitment and payments and available balances. This ensures that there is no uncommitted expenditure (Flying vouchers) and availability of funds before payment. However no vote book was being maintained. There was no commitment of LPOs/LSOs and imprest. Vote book control certificates and codes were not being reflected on the payment vouchers.

Recommendation

Proper records should be kept in line with Government Financial Regulation and procedures and be enhanced by establishing strong internal control systems.

2.1.7 Internal Controls

The internal control systems in Kilifi County Government are not adequate. Payments were made without being subjected to vital procedures such as examination of vouchers, internal audit, and authorization, approval, vote book and cash book certification, Examples of these weaknesses are as follows;

Control System Weakness	Kshs
Un-examined payment vouchers	2,725,000
Payment vouchers paid without proper approval	78,275
Payment vouchers paid without proper authorization	6,202,275
Payment vouchers paid without proper coding/VBC	7,824,275
Payments without relevant supporting documents	8,495,275
Irregular payments	8,495,275

Recommendation

The County Government should put in place strong internal control systems.

2.1.8 Irregular Claims

A cashier to the County Assembly, Kilifi, claimed to have spent Kshs.1,144,000.00 paying allowances to County Assembly Members attending a two-day Budget Management Workshop and two-day workshop. The claim was paid through cheque number 077 of 30 May 2013. However the four days period was not specified. The location of the two workshop was also not disclosed. The same day, another payment of Kshs. 926,000 was made vide cheque number 056 of 30 May 2013, being safari allowances for the County Assembly Members attending a three-day budget management workshop in Mombasa between 22 and 24 May 2013. Unless otherwise explained, this appears to be a double claim.

Recommendation

The management should be made to properly account for expenditure. Expenditure should be properly supported with the necessary approval documents so that eligibility of the payments can be verified and confirmed.

2.1.9 Unjustified Claims:

Officers at the County Governor's Office were paid allowances totaling Kshs.2,648,000.00 under un-explained circumstances. In most cases the officers were on their normal duties which did not warrant for extra allowance. In other cases, the nature of duties being performed was not disclosed.

For example, one officer claimed and was paid Kshs.370,000.00 for un-disclosed purpose. The claim was indicated as 'surrender of imprest', yet no imprest had been issued to the officer. No document was attached to support the payment.

On another claim, officers at the Finance Department were paid a sum of Kshs.556,000.00 as four day allowances on undisclosed duties. The four days were not specified. The Kshs.2,658,000.00 claims as outlined above are just a sample of irregularities committed by those charged with control duties.

2.1.10 Record Maintenance

Correspondence files for various projects were not available for audit verification. No proper structure of handling records was observed to be in place for audit review.

2.1.11 Refurbishment of Office

The County Government of Kilifi engaged three (3) contractors to carry out refurbishment of the Kilifi County Council office block which is being converted to Kilifi County Governor's Office at a contract sum of Kshs.13,783,817.30.

The project file was not made available for audit verification and therefore issues like site possession dates, site meetings minutes, certificates and progress reports were not verified. Bills of quantities and contract documents for the main contractor were not verified.

Acceptance letters by the contractors dated 22 May 2013 indicated that the contract period was expected to be 12 weeks. The contractors were still on site as on 22 August 2013.

Recommendation

Projects, works and services should be supported by proper records, Local Service Orders (LSO's), Bills of Quantities' documents, project files, contractors, invoices, completion certificates from technical departments and inspection and acceptance committee reports. The management of the County Government should make a detailed disclosure on the project procurement, cost, contractor identification and progress of the project.

2.1.12 Irregular Procurements

Goods and services were bought by Kilifi County Government from un-contracted suppliers. Although it was explained that the suppliers were from pre-qualified list of other government institutions in Kilifi, it was observed that these were not pre-qualified by the two institutions. The payments were as follows;

<u>Item</u>	<u>Amount Kshs</u>
Goods, works, services procured un-procedurally	28,915,662.00
Un- authorized payment vouchers	12,810,000.00
Un-supported payment vouchers	28,915,662.00
Incorrect coding	28,915,662.00
Un-confirmed receipt, delivery of goods and certification of services	28,915,662.00

Hotel and a travel services procured at a cost of Kshs.2,288,900.00 and Kshs.795,500.00 respectively were from private institutions and without the service providers being competitively contracted.

This is contrary to the Government Financial Procurements and Regulations requirements that public organizations should hold such activities in public institutions. There is no indication that any attempts were made to secure the services from public institutions. Therefore the hotels were not competitively identified.

A local firm was paid Kshs.300,000.00 through cheque number 000155 and Kshs.310,000 through cheque number 000156 both of 28 June 2013, being cost of digitally printed signboards. However it is not clear how the firms that quoted were identified.

Quotations for similar items though issued on the same date, were split. Confidential business questionnaires were not attached to the bids and the identity of the firms could not be established. The winning firm's postal address on the invoice was given as P.O Box 81099 Mombasa while that on the quotation's rubber stamp was P.O Box 16599-80100 Mombasa. In the absence of records indicating the identity of the corporate person of the firm, the true position could not be established, and fairness in the process was doubtful.

Another local firm was paid Kshs.494,800.00 through cheque number 000214 of 28 June 2013 being cost of letterhead papers, store requisition books and purchase requisition books as per Local Service Order number 0872577 of 28 June 2013. The payment voucher used to effect payment had its certificate indicated as "items being printed". It was observed that the quotations did not specify the terms and payment was made before delivery of the items. No invoice was attached to the payment voucher and delivery could not be confirmed in the absence of any documentary evidence as the delivery period was not indicated.

It is also not clear how the firms that quoted were identified in the absence of a list of prequalified suppliers.

Another firm was paid Kshs.196,880.00 through cheque number 000161 of 28 June 2013, being cost of office carpet and carpet protector. However the quotations,

opening date, time and the officers responsible for opening were not specified. It was not clear how the firms were identified.

It was observed that the confidential business questionnaires and relevant licenses were not attached. The address on invoice for the firm was printed as P.O. 76419 Nairobi while the one on the rubber stamp both on invoice and quotation was indicated as P.O. 12358-80117 Mombasa. This casted doubt on the existence of the firm carrying out business with the County Government.

Another company was paid Kshs.310,000.00 through cheque number 000125 Of 17 June 2013, being cost of the following items through a Local Service Order number 0872568 of 12 June 2013;

Item	Amount Kshs
1 Samsung Galaxy S4	70,000
1ipad 4, wifi, 4G, 64GB	90,000
Mac Book Pro corei7	150,000
Total	310,000

It was observed that official quotation forms were not used and a local service order was used instead of a local purchase order. It was also not clear how the firms were identified as there was no evidence of receipt of goods.

Recommendation

The management should offer proper explanation on how expenditure was incurred from un-contracted suppliers and account for the goods and services with supporting documentation. No expenditure should be incurred without following the laid down procurement procedures and supporting documentation.

2.1.13 Outstanding imprest

The County Government advanced Kshs.2,088,016.00 to various staff as temporary imprest. Financial Regulations and Procedures require that an officer should surrender any outstanding imprest before being advanced another imprest. It was observed that some officers were advanced imprest before they surrendered the previous.

Some cases observed included a staff member who was advanced imprest amounting to Kshs.171,000.00 through imprest warrant number 1701106 dated 6 May 2013 and through warrant number 17001112 for Kshs.117,000.00.

Similarly other various staff members through various warrants was advanced Kshs.310,000.00, Kshs.289,516.00, Kshs.50,000.00 which were still outstanding at

the time of the audit. No explanation was given for issuing of imprests without surrender of previous ones contrary to regulations.

Recommendation

Financial rules and regulations regarding imprests should be followed. Outstanding imprest should be accounted for.

2.2 MUNICIPAL COUNCIL OF MALINDI

2.2.1 Non-Current Assets

It was observed that seventy three (73) parcels of land recorded in the assets register did not have ownership documents like title deeds or allotment letters. The Council had not managed to acquire titles for its land and it appears no effort was being put in place to have the ownership documents. The ownership of the 73 parcels of land amounting to Kshs.390,415,794.00 could therefore not be confirmed.

Recommendation

Arrangements should be made with the Transition Authority to have the titles acquired and have the parcels of land transferred to the County Government.

2.2.2 Cash and Bank Balance

All bank accounts previously operated by the defunct local authority were required to be closed by 28 February 2013 and transfers made to the County Government Revenue Fund Account.

The defunct Council did not close its bank accounts by 28 February 2013 as required and therefore funds were not transferred to Kilifi County Government Revenue Fund. A review of the cash and bank records made available indicated that the Council obtained bank certificates for various accounts as at 4 April 2013 with a total of Kshs.17,021,474.00

A scrutiny of the bank balances with other relevant records and correspondences revealed the following observations.

The defunct Council continued operating bank accounts until 3 June 2013 when instructions were given to have them closed. However it has not been confirmed when these accounts were actually closed and what balances were transferred to the County Government Revenue Fund. Similarly no bank reconciliations have been made available for audit review to confirm the balances.

Recommendation

The County Government should ensure that the transfer of funds to the county revenue fund is done. Monthly bank reconciliations should be done for all accounts to ascertain the correct balances as at 28 February 2013.

2.2.3 Debtors

According to records presented for audit review debtors totalling Kshs.190,298,168.00 were handed over to the Kilifi County Government from the Municipal Council of Malindi as summarized in the table below.

Debtor	Amount-Kshs
Single Business Permit	18,852,620
Stall Rent	1,808,312
Slaughter House Rent	460,000
Rental Fish Rent	508,000
Land Rates and Rent	121,768,255
Cillor	13,534,842
Tenant Purchase	2,365,957
Site and Service	2,307,430
Garbage Collection Fees	3,797,263
Signboards and Billboards	3,848,275
LATF	21,147,214
Total	190,398,168

An aged analysis of these balances was not maintained and to confirm how long they have been outstanding.

Recommendation

Debtors and other receivables should be fairly stated in financial statements and adequate provision of bad debts be made.

Records should be made available to confirm the balance and proper handing over done.

2.2.4 Statutory Creditors

Analysis of the general ledger control accounts revealed a significant increase of statutory creditors. The balance as at 1 July 2012 was Kshs.31,507,107.80 which increased to Kshs.46,666,763.90 as at 28 February 2013.

As at 30 June 2013 the balance had increased to Kshs.63,733,251.00 representing a 49% increase within six (6) months. Included in this category creditors with large balances amounted to Kshs.38,805,539 as stated below.

Creditor	Amount Kshs.
Lengo Sacco Ltd	5,446,120.00
Equity loans	1,081,378.0
Union dues	1,112,384.00
Provident Fund	23,856,024.00
Laptrust	4,197,620.00
National Social Security Fund	502,196.00
Kenya Revenue Authority (Pay As You Earn)	2,609,817.00
Total	38,805,539.00

Non payment of statutory deductions attracts penalties and interest which could have been avoided were the deductions paid on time.

Recommendation

Appropriate creditors records should be maintained to include particulars of each creditor. Also no creditor should be settled before validation of the balances.

2.2.5 Staff Uniform Arrears

No proper records to confirm these balances were made available for audit review. Included in this list of creditors were staff uniform arrears of Kshs.10,645,718.00 which has been long outstanding and had a nil balance as at 1 July 2012. No explanation has been made to confirm this balance and how it arose. No list of staff to be issued with uniforms was made available for audit review. Arrears of interdiction lifting were included in this balance. The staff under interdiction were not disclosed and the status their cases known.

2.2.6 Bursaries

Included in the list of these creditors is bursary amounting to Kshs.3,900,000.00 whose list of beneficiary was not availed for audit. It was observed that the Council minutes which resolved the awarding of bursary were not provided and therefore the audit could not establish the authenticity of this bursary included in the list of creditors.

2.2.7 Audit Fees and NHC Deduction

Included in the creditors were outstanding balances for Kenya National Audit Office and Kenya National Housing Corporation of Kshs.1,100,000.00 and Kshs.3,376,013.00 respectively. These creditors were observed to have been long

overdue and it appears the Council did not have a credit policy on how these creditors should be settled.

2.2.8 Advocates Creditors

Lawyers and advocate liabilities taken over by County Government had an outstanding balance amounting to Kshs.2,671,624.00 during the year. No documentary evidence was produced to confirm payments totalling Kshs.8,000,000.00 made to one of the legal firms

The status of cases could not be confirmed and it was observed that there were pending cases which could not match with the advocates' creditors listing because the cases were described as dormant, not defended and pending. The defunct council had no legal officer to help the council on legal matters and all the case files were not provided for audit verification.

Recommendation

The management of the defunct Council should make a detailed disclosure of the cases, the status of the cases confirmed. It is important that a confirmation letter is obtained from the courts to the effect that the cases are either ongoing or have been settled altogether.

2.2.9 Project Creditors

The project creditors as at 30 June 2013 had a balance of Kshs.11,671,814.00. Out of this balance Kshs. 879,791 represented balances from the previous financial year. It has not been supported with documentary evidence and whether these creditors were transferred to the County Government.

Recommendation

Appropriate creditors' records should be maintained to include particulars of each creditor and have them handed over to the County Government. Further, creditors should be settled before validation of the balances.

2.2.10 LATF Projects

All the projects identified and approved during the financial year through the LASDAP process should be undertaken and be implemented as per the engineer's estimates and the annual budgets. Procurement procedures as stipulated in the Public Procurement and Disposal Act, 2005 should be adhered to and all the projects be completed within the contract period.

2.2.10.1 Mijomboni Water Project

The Municipal Council awarded a contract through project tender number MMC/C15/2012-2013 for the installation of water pipes and tanks at Mijomboni in Gede North Ward.

According to minute number 11/12 LASDAP project tender number MMC 15/2012/2013, the Tender Committee meeting held on 26 November to 13 December 2012 in the Tender Committee disqualified a local firm as it did not fill and sign the tender documents and therefore it did not advance to the next stage of technical evaluation.

However, Tender Committee meeting held on 6 February 2013 resolved that as per minute number 11/3/3012-2012 the tender be awarded to same firm. This was contrary to the resolution previously arrived at.

The contractor was awarded a total sum of Kshs.2,203,192.00. However, the contract agreement was for a contract sum of Kshs.2,240,992.00. It was not explained how the difference of Kshs.37,800.00 was arrived at in the final contract agreement. Further, no progress report was provided to confirm whether the project has been completed.

2.2.10.2 Renovation of Municipal Clinic

The Tender Evaluation Committee meeting held from Monday 26 November to Thursday 13 November 2013 in the council board room resolved as per minute number 07/12 LASDAP tender number MMC/C06/2012-2013 to award a contract for the renovation of Municipal Clinic. The evaluation committee disqualified a contractor for not availing public works certificate of registration. The contractor had quoted Kshs.2,123,550.00 as the contract cost as per his bill of quantities (BOQ).

On 6 February 2013, the Tender Committee met. As per minute number 7/3/2012-2013 tender number MMC/C06/2012-2013 for the renovation of the Municipal Clinic the Tender Committee discussed and awarded the contract to the same contractor on the condition that they renovate the clinic at a cost the equaling the engineer's estimate of Kshs.1,794,250.00.

Examination of the project file revealed that the Municipal Council signed a contract agreement on 20 February 2013 with a local contractor for the renovation of the Municipal Clinic at a cost of Kshs.2,123,550.00. This was contrary to the resolution of the tender committee that the work be done at a cost of Kshs.1,794,250.00. No documentary evidence was produced to show why the tender committee resolution was not followed. The contractor was paid Kshs.821,322.00 as per payment certificate number 1. It was not been supported with documentary evidence that the project has been completed.

Recommendation

The Council should explain why the project has not been completed. All projects should be completed once initiated.

2.2.11 Operating Expenditure

The Local Authority Financial Reporting Template 2008 sets out guidelines on the disclosure of expenditure in the financial statements. The Template is based on International Public Sector Accounting Standards (IPSAS) which among others state that expenditure figures disclosed in the financial statements should be supported by proper schedules and primary books of accounts

2.2.12 Legal Expenses

Amount totalling Kshs.7,143,134.00 was paid to law firms arising from claims from court cases defending the Council. Out of this amount Kshs.3,970,759.00 was paid between 23 February 2013 and 4 April 2013. Comparison with the creditors ledger made available for audit review revealed that the paid amounts were not reflected in the ledger as balance paid.

One of the law firms was paid Kshs.750,000.00, although it was not in the creditors ledger and it was not explained what services were rendered to warrant payment.

Recommendation

Proper records should be maintained showing details like when the cases started, terms of engagement, mode of procurement used, payments made and amounts due. It is also important that a confirmation letter is obtained from the courts to the effect that the cases are either ongoing or have been settled altogether.

2.2.13 Personnel Expenses

The total wage bill stood at Kshs.141,556,897.00 for the period under review for the 222 salaried employees excluding Councilors' earnings, deductions and casual employee costs.

It was observed from the payroll availed that the Municipal Council of Malindi irregularly paid Kshs.4,868,401.00 to various staff being leave allowance. However, no authority was availed approving the expenditure.

In September 2012, all salaried Council employees nationwide were awarded a salary increase which was effected in February 2013 through Collective Bargaining Agreement (CBA 2012).

The salary increment in February 2013 revealed that the Council could not sustain the wage bill as the June 2013 payroll was settled with borrowed funds from the County Council of Malindi where Kshs.11,037,104.00 had been borrowed.

Recommendation

Expenditure incurred should be fully supported with the necessary approval so that eligibility of the payments can be verified.

2.2.14 Outstanding Imprest

As at 30 June 2013, the Council had outstanding imprests amounting to Kshs.11,581,039.00. Out of this figure, Kshs.5,750,226.25 represents employees who are deceased, transferred or suspended. The balance of Kshs.5,830,813.60 was outstanding imprests for staff that were still on payroll. No details of staff holding the imprest was made available for audit review as the record made available comprised summaries in the form of departments.

Audit of the payroll however, revealed that the imprest was not being recovered from the salaries as required.

It was further observed that the Municipal Council of Malindi did not maintain a file for imprest warrants. The LAIFOMS printed imprest warrants did not indicate the purpose for the imprest advanced. Consequently, we could not confirm their authenticity.

Recommendation

Outstanding imprest should be accounted for. Imprest should be issued in line with Government Financial Regulations and Procedures.

2.2.15 Operating Revenue

The Local Authority Financial Reporting Template 2008 sets out guidelines on the disclosure of income in the financial statements. The template is based on International Public Sector Accounting Standards (IPSAS) and requires, among other things that income figures disclosed in the financial statements should be properly supported by schedules and other primary books of account.

2.2.15.1 Revenue

It was observed that the revenue module on the LAIFOMS was not being updated and as a result, the banking list report was available for the period up to 10 July 2012.

Revenue analysis which involved collections against bankings revealed the Council had under-bankings of Kshs.10,817,531.00 for the period under review. The Cashier analysis summary of revenue posted a figure of Kshs. 288,425,801.00 as total receipts collected whereas the bankings showed Kshs.277,110,950 was collected. Actual revenue receipted as per daily collections stood at Kshs.287,928,481.00. Total bankings included direct deposit of Kshs.111,791,885.00.

Recommendation

Proper records should be kept and reconciliations made. The difference should be accounted for.

2.3 COUNTY COUNCIL OF MALINDI

2.3.1 Non-Current Assets

The fixed asset register produced by the council for audit was updated; however the value of land amounting to Kshs.46,214,104.00 had no ownership documents such as title deeds. The one title produced in respect of the dumpsite was in the name of an individual who was explained as the seller as per certificate of search dated 5 December 2008 and undated and unsigned application for consent of sale of land control board and transfer of land form. In the circumstance the ownership of non-current assets balance of Kshs.46,214,104.00 could not be confirmed. Similarly the logbook for motor vehicle number KBG 269C Toyota Hilux double cabin was not made available for audit verification.

Recommendation

The Transition Authority should conduct a proper handover of the Councils books, records and property.

2.3.2 Cash and Bank Balance

A review of the cash and bank records made available indicated that various accounts were held during the period ending 28 February 2013 with balances amounting to Kshs.49,888,586. Scrutiny of these accounts with other relevant records and correspondences revealed that the bank accounts had not been closed by 28 February 2013 as required by law and therefore no funds were transferred to Kilifi County Government Revenue Fund Account.

Recommendation

All bank accounts should be closed and balances transferred to the County Government Revenue Fund Account. Monthly bank reconciliations should be done for all accounts to ascertain the correct balances as at 28 February 2013.

2.3.3 Debtors

The list of debtors taken to the county government had debtors totaling Kshs.3,482,150.95. The County Council of Malindi debtors' ledger had not been properly maintained as it was not updated and there were variances between reported debtors and the ledger.

There was no explanation given for a variance of Kshs.199,756.90 and the same has not been reported to the County Government of Kilifi during handing over. Some staff debtors were also not included in the list taken.

Recommendation

Records should be made available to confirm the balance and proper handing over done.

2.3.4 Creditors

Supplier's balances amounting to Kshs.5,094,634.10 were handed over to the county government. However perusal of creditors records revealed that these amounts stated as liabilities could not be verified in the ledger as the creditors' ledgers were not updated and all the balances disclosed in the handing over notes.

The Council did not have proper documentation to support these creditors as it relied on letters from creditors which could not be ascertained because the books were not properly kept and most of these creditors were long overdue. The council was not able to explain National Hospital Insurance Fund deficit of Kshs.1,896,132.00.

Recommendation

Appropriate creditors records should be maintained to include particulars of each creditor and no creditor should be settled before validation of the balances is done.

2.3.5 Procurement of goods and services

i) Lack of annual procurement plan

Scrutiny of procurement records produced for audit revealed that the County Council of Malindi did not have an annual procurement plan. The list of prequalified suppliers was not availed for audit review and the defunct county council had no qualified procurement officers as the officer handling procurement issues was a clerical officer with the result that most of the procurement was done using imprest system. The council should have operated with a procurement department, procurement plan and maintain a list of prequalified suppliers.

Recommendation

Proper records should be maintained for all procurements done. Procurement of goods, works and services should always be done in accordance with the Public Procurement and Disposal Act, 2005 and Regulations of 2006.

2.3.6 Expenditure

i) Cash purchases

In the period under review, a sample of three months expenditure revealed amounting to Kshs.1,849,385.00 had been incurred by the County Council of Malindi. The defunct council was using the cash payments system instead of cheque system for making payments especially payments made to security officers manning the Gogoni collection point. There were no records to confirm how the officers manning this collection point were engaged and therefore the rate used to pay officers could not be established.

Recommendation

The Management of the defunct County Council should make a detailed disclosure of how the officers manning the collection point were engaged and the use of cash payments instead of cheque system in making payments.

ii) Unsupported payments

The council spent Kshs.150,000.00 for a seminar in Nairobi by facilitating some staff to attend. However, no any documentary evidence was produced to ascertain the attendance of the staff.

It was also observed that expenditure of Kshs.331,250.00 was incurred for the repair of council vehicles and payment made through payment voucher number 76/5 of 27 May 2013, cheque number 014108 and 54/5 of 17 May 2013 cheque number 014100. These payment vouchers were not authorised and the payee was not in the list of prequalified suppliers.

Recommendation

The management of the Council should explain and account for the funds used.

2.3.7 Under-Banking of Revenue

The revenue module on LAIFOMS was not being used by the council and as a result, auditors could not review the reports generated by the information system and consequently no explanation has been given for not LAIFOMS. Scrutiny of the revenue books and records revealed that the council had an under banking of Kshs.2,425,734.00.

Recommendation

The management of the council should account for the revenue not banked and disciplinary action taken against those unable to account for the revenue.

2.3.8 Imprest

The council did not use the LAIFOMS to process the imprests and therefore it was difficult to extract information on outstanding imprests issued to employees from the system as at 30 June 2013 as the records made available were incomplete. It was observed that the register was not properly updated and imprests were being issued before previous ones were surrendered. Some imprests and advances were not being posted to the ledgers raising doubts as to the accuracy of the records maintained.

Recommendation

Imprest should be issued and accounted for in line with Government Financial Regulations and Procedures.

2.3.9 LATF Projects

i) Construction of septic tank and soak away pit at Sosoni Dispensary in Bungale Ward Project No CCM/LATF/2012/2013/018

Quotations were floated and a contractor was awarded to supply the materials being the bidder who quoted the lowest price per item. The supplier was notified vide letter dated 18 January 2013 of the award of the tender for supply of building materials after deliberations on minute number 002/0130 (awarding of supply of building materials) dated 18 January 2013.

The supplier made deliveries amounting Kshs.276,690.00, it was however observed that the supplier was not among the companies which applied to be shortlisted in the list of prequalified suppliers and the council did not advertise for this category (supply of building materials). It was therefore not possible to confirm how the supplier was identified to supply the building materials as the supplier did not acknowledge the award by issuing acceptance letter.

The works officer had received imprest of Kshs.200,000.00 vide voucher numbers 2/3 of 01/03/2013 and number 68/5 of 27/5/2013 for Kshs.100,000.00 each for the construction of two toilets at Mkondoni and Mjanaheri dispensaries. These toilets have not been completed to date.

Though the imprest request indicated that the pit was to have block walling, it was noted that only a portion of the pit was actually done. The imprest of Kshs.200,000.00 taken by the works officer for this construction has not been surrendered to date.

Amounts totaling Kshs.276,690.00 for materials and Kshs.200,000.00 for labour had been spent on two pit latrines out of the four which were to be contracted. It was not explained why since March 2013 two toilets under direct supervision of the council have not been completed while funds were allocated and spent for the works.

Recommendation

The management of the defunct Council should make a detailed disclosure on the project and have it completed.

ii) CCM/LATF/2012-2013/001; Construction of Two Classrooms at Katama Nursery School

This contract was given to a local firm through council quotations evaluation minutes dated 3 January 2013 at a contract cost of Kshs.1,761,279.63 and as per the bill of quantities, the contract duration was eight (8) weeks.

As at 25 June 2013, 65% of the works had been certified as completed valued at Kshs.1,030,348.00 and paid in two certificates. Certificate number 1 for Kshs.475,545.00 and number 2 Kshs.554,803.00.

The eight (8) weeks contract duration had lapsed and therefore the project was delayed for seven (7) months since the contract was awarded. There was no explanation as to the cause of the delay or any action the council intended to take to ensure completion of the works as it was observed that the contractor did not construct the site store as provided for in the bill of quantities.

Recommendation

The management of the defunct Council should have the project completed and account for the funds paid.

iii) CCM/LATF/2012-2013/006 Construction of Two Classrooms at Zhongwani Primary School

This contract was awarded through Council quotations evaluation minutes dated 3 January 2013 at a contract cost of Kshs.1,774,149.63. As per the bill of quantities, the contract duration was 45 days. As per payment certificate number 2, dated 25 June 2013 the works have been 65% complete. Scrutiny of the certificate showed that it was prepared using figures of contract number CCM/LATF/2012-2013/001. Therefore the figure of retention money of Kshs.176,128.00 is not correct and it has not been explained how the figures of this contract were used to certify works for another contract. As at the time of audit verification the works were not complete as per the terms of contract.

Recommendation

The management of the defunct council should make a detailed disclosure on why figures of another contract were used to certify works of another contract.

iv) CCM/LATF/2012-2013/012 Construction of a Dormitory at Fundissa Secondary School

This contract was awarded to a local firm through Council quotations evaluation minutes dated 3 January 2013 at a contract cost of Kshs.1,444,860.00. As per the bill of quantities, the contract duration was eight (8) weeks from 18 January 2013.

It was observed that the contractor was paid the total sum of the contract with the last payment certificate dated 17 April 2013 of Kshs.260,075.00 through cheque number 102283 dated 27 May 2013 without completing the works as per the bill of quantities as the item required installation of 12 windows with burglar proofing at a cost of Kshs.114,000. The windows were installed but the burglar proofing was not done. The council processed the payment without considering from the project photographs that the burglar proofing was not done. The contractor has since moved out of site and as at the time of audit the retention money was being claimed. No explanation has been offered to confirm when these works will be completed as indicated in the bill of quantities and terms of contract.

Recommendation

The management of the defunct council should make a detailed disclosure on when the project will be completed.

v) CCM/LATF/2012-2013/013 Construction of Two Classrooms at Adu Secondary School

This contract was awarded to a local firm through Council quotations evaluation minutes dated 3 January 2013 at a contract cost of Kshs.1,733,380.00 as per the bill of quantities and the contract duration was five (5) weeks from 18 January 2013. As at 19 April 2013, the contractor had only done 30% of the total work. The contract performance was delayed and the agreement document did not have any clause on what action the Council should take when such a delay arises.

Recommendation

The project should be implemented without any undue delay. Contracts should have a clause of the action to be taken in case of a default.

2.3.10 Payment of Commutation of Leave Days

The County Council of Malindi paid 52 officers a total of Kshs 5,140,356 as commutation allowance on 27 June 2013. It was not clear whether all the officers had qualified for the allowance as required in the Collective Bargaining Agreement.

Recommendation

The management of the Council should make a detailed disclosure on whether all officers qualified for the allowance. Allowances should be paid to qualifying personnel only.

2.4 TOWN COUNCIL OF KILIFI

2.4.1 Receivables

The receivables ledger was not availed for audit review, making it not possible to verify the value of receivables taken over by the County Government.

Rates receivable could not be verified from the schedule availed for audit review as it did not indicate how the figures were arrived at.

Recommendation

The ledger should be updated and availed for audit verification.

2.4.2 Revenue

The control of miscellaneous receipt books is done through recording of all issues and returns in the counterfoil receipt book register (CRBR). Recording on the counter foil book register was found to be inadequate with some miscellaneous receipt books indicated to be with the collector yet they were availed for audit. On enquiry it was stated that some books were being returned to the internal auditor instead of being returned to the procurement office for recording. Further there were some miscellaneous receipt books that were not produced for audit review.

Cess fees collection is supposed to be controlled by having a check unit located at a strategic point to counter check whether all lorries had been charged. The check unit is supposed to maintain tallying sheets. The tallying sheets were not available for audit. Further no reconciliation was availed between the collectors and what was counter checked by the check unit.

A test of accuracy of cess revenue collected established that though the charges for the cess was based on the tonnage of the lorry irrespective of amount carried same lorries would be charged different amounts at different times.

The former town council of Kilifi list of fees and charges did not have any Mapande cess charges of Kshs.200.00 yet many Lorries had been charged Kshs.200.00.

Recommendation

The counterfoil receipt book register should be properly maintained with only one department issuing and receiving receipt books to ensure adequate control.

Used receipt books should be surrendered to the main cashier with all the collection.

Cess should be based on the approved rates only

The check unit should maintain proper tally sheets which should be reconciled with what is presented by collectors.

2.4.3 Cash and Bank

Bank accounts operated by the defunct Local Authorities was to be closed by 28 February 2013 and that there was to be smooth and seamless transfer of cash and bank balances to the County Government. Consequently, the County Government was to open a revenue collection bank account at sub-county level where revenue collected was to be banked.

The Town Council was directed by the County Government of Kilifi through a letter reference CG/KFI/FIN/6/(5) dated 23 May 2013 to close all its bank accounts except general fund account and transfer all the funds to General Rate Fund Account by 27 May 2013. The letter also required the Council to submit a report on the same and the bank balances.

The Town Council received a second directive from the County Government of Kilifi through a reference CG/KFI/FIN/6/ (6) dated 28 June 2013 to close the general rate fund account and transfer all the remaining money to County Revenue Fund Account by 30 June 2013.

However, and although letters directing the banks to close some accounts were availed, it could not be confirmed with certainty that all the accounts were closed.

Recommendation

All accounts for the defunct local authorities should be closed as directed by law. Bank reconciliation statements should be prepared as at the date when each account was closed.

2.4.4 Temporary Imprests

Examination of imprest records for the defunct Kilifi Town Council revealed that Kshs 1,385,801.00 advanced to the Town Council officers was still outstanding as at 30 June, 2013. The imprests were issued between the year 2009 and 2013. The copies of the imprest warrants issued were not produced for audit scrutiny. It was further observed that some officers were issued with additional imprests before having surrendered the ones previously issued.

Recommendation

The outstanding imprests should be recovered from the officers or be properly accounted for.

2.4.5 Creditors' Ledger

An audit examination of creditors' record maintained at the defunct Kilifi Town Council revealed that as at 30 June 2013 the Council owed creditors amounts totalling Kshs.30,497,020.00. The creditors' bills were in respect of valuation roll, supply of goods, un-surrendered LAPTRUST collections and various other services.

However the following observations were made:

- 1) The invoices and certificates supporting the amounts owed to the creditors by the defunct Town Council were not produced for audit review.
- 2) There was no evidence to confirm that the Ministry of Lands was contracted to carry out the valuation exercise of the plots within the defunct Town Council.

Recommendation

The County Government should authenticate these creditors and settle the amounts owed.

2.4.6 Property, Plant and Equipment

It was observed that the Council is in possession of a number of assets whose ownership could not be confirmed. According to the asset report as at 30 June 2013 the Council has a number of assets whose ownership is still in doubt.

It was not possible to confirm whether the said assets were officially handed over to the County Government by the defunct Council. No handing over report was availed for verification.

Recommendation

Documents of ownership should be followed up and obtained and official handing-over should be done detailing the assets being transferred cost depreciation, net book value and current condition and location.

2.4.7 Expenditure from General Rate Fund

A scrutiny of General Rate Fund Account revealed some expenditure was incurred with no proper supporting schedules. It was therefore not possible to confirm, the accuracy, authenticity and regularity of the expenditure.

Scrutiny of the expenditure ledger revealed that the Council continued to incur expenditure despite being defunct by 28 February 2013. The incurred expenditure from various accounts for the period March to June 2013 Kshs.28,891,289.00 from General Rate Fund Account, Kshs.7,641,658.00 from LATF Account and Kshs.3,590,358.00 from General Reserve Account.

It was further observed that the Council spent Kshs.326,850.00 towards the implementation of LAIFOMS computer system. However it was observed that the system has not been operational and the Council was still operating on a manual system. The breakdown of expenditure is as below:

Date	Cheque number	Name	Amount Kshs	Purpose
01.08.2012	4345	Cash payment	2,500	Lunch LAIFOM
27.07.2012	4343	Cash payment	75,750	Lunch LAIFOM
18.07.2012	4308	Cash payment	248,600	Facilitation for implementing LAIFOM
Total			326,850	

Recommendation

All expenditure should be well supported.

All expenditure should aim realizing some economic benefits to the Council.

2.4.8 LATF Expenditure

i) Construction of Two Classrooms at Nzombere Primary School

The Council awarded the tender for construction of two classrooms to a local firm at Kshs.2,060,390.00 with an initial payment of Kshs.184,716.00 made to the contractor on the 28 February 2013. Physical audit verification of the project found that the project had been done at the substructure level. The substructure was however incomplete and the contractor had abandoned the site leaving some materials. The contractor had not furnished the Council with a performance bond making it difficult for the council to enforce the performance against the contractor.

Recommendation

Proper arrangements through the County Government should be done to ensure the completion of the project so that its benefits can accrue to the community as the pupils are currently using makeshift classrooms that are leaking.

ii) Maintenance of Project Files

An examination of the Council's project files found various essential documents to be missing as follows:

- ✓ Contract Agreement
- ✓ Bills of Quantities
- ✓ Programme of Work
- ✓ Certificates of Works
- ✓ Copies of payment documents
- ✓ Site Meetings' Minutes
- ✓ Site Instructions that lead to variations

Some of the projects affected are.

	Project	Budgeted Expenditure	Actual Expenditure
		Kshs.	Kshs.
1.	Renovation of 8 classrooms Fumbini Primary School	2,300,000.00	2,165,869.00
2.	Renovation of 5 classrooms - Mikingirini Primary School	1,900,000.00	2,148,884.00
3.	Construction of Town Hall	24,054,730.0 0	20,528,839.0 0
4.	Extension of Water Project - Kasavabigili	3,356,150.00	3,506,150.00

Recommendations

Proper documentation should be done to enhance easy verification of projects.

iii) LATF Projects not undertaken for the year 2012/2013

The Council undertook various projects during the year 2012/2013 through the sponsorship of LATF. It was however observed that some projects were not undertaken by the Council. These were roofing and flooring of Tezo Youth Polytechnic at a cost of Kshs.700,000.00 and construction of a drainage system at Hospital Ward at a cost of Kshs.1,000,000.00

Recommendations

The County Government should consider undertaking the projects so the benefits can accrue to the community.

2.5 MARIAKANI TOWN COUNCIL

2.5.1 Property, Plant and Equipment

It was observed that the Council is in possession of a number of assets whose ownership could not be confirmed. According to a valuation report dated 30 June 2012, the Council has land and buildings worth Kshs.256,168,900.00. However the ownership could not be verified in the absence of documentary evidence.

Further, it was therefore not possible to confirm whether the assets were officially handed over to the County Government by the defunct Council as no handing-over report was availed for verification.

It was also observed that the Council acquired a 10 acres dump site at Mitangoni in Mariakani at a cost of Kshs.1,450,000.00. However, a part from the sale agreement availed for audit; no other documentary evidence was availed to confirm that the plot is fully owned by the Council.

Recommendation

Documents of ownership should be followed up and obtained.
Handing over report should be availed for audit verification.

2.5.2 Receivables

The Town Council of Mariakani maintains a receivables ledger which was not updated as at 30 June 2013. It was therefore not possible to ascertain the current receivables figure.

Further, and as per letter ref TCM/FIN/251/VOL.1/24 dated 16 July 2013, the Council forwarded to the County Government of Kilifi a list of debtors as at 30 June 2013 amounting to Kshs.104,992,741.00. However scrutiny of the same revealed that the debtors figure had been calculated out of various documents of the Council and forwarded to the County Government for handover. Analysis of the figures indicated that some figures could not be ascertained as correct.

Recommendation

The receivables ledger should be updated to facilitate further analysis.

2.5.3 Revenue

The Council collects cess fees on cash and credit basis, where the collector on the ground makes a summary of the lorries that are chargeable with their respective tonnage. Invoices are then sent to the lorry owners to demand payment. Information availed from the LAIFORMS system revealed that the Council collected cess fees worth Kshs.17,486,802.00 as at 30 June 2013.

However analysis of the cess collection, revealed some alterations on the invoice value. This resulted to issuance of credit notes to reduce the invoice value whenever the client disputed the invoiced value. No documentary evidence was availed to confirm whether the alterations were authorized, and how the altered figures were arrived at.

A further analysis of cess fess collection indicated that some invoices raised were not captured in the LAIFORMs system of the Council.

It was also observed that some cess fees amounts captured in the LIFORMS system of the Council could not be traced to their original documents for verification of accuracy. Although it was explained that such collections were cash basis, no documentary evidence were availed for verification.

Clients who pay cess fees on cash basis are issued with a miscellaneous receipt. An audit of the miscellaneous receipt books issued to collectors and returned to the office revealed that some miscellaneous receipt books were missing.

Recommendations

Revenue collection controls should be improved to ensure all revenue is collected and accounted for.

2.5.4 Cash and Bank

Bank accounts operated by the defunct local authorities were to be closed by 28 February 2013 and that there was to be a smooth and seamless transfer of cash and bank balances before, during and after the transition to the County Government. Consequently, the County Government was to bank their revenue collections at sub – counties and County Revenue Fund account either where revenue in Collection accounts was to be swept to CBK.

Scrutiny of cash and bank records revealed that cash books were not updated further bank reconciliation statements provided could not be verified since the cash books were not updated.

The Council was directed by the County Government of Kilifi through letter referenced CG/KFI/FIN/6/(5) and dated 23 May 2013 to close all its bank accounts except general fund account and transfer all the funds to general rate fund account by 27 May 2013. The letter also required the Council to submit a report on the same and the bank balances.

The Council received a second directive from the County Government of Kilifi through letter referenced CG/KFI/FIN/6/ (6) dated 28 June 2013 to close the general rate fund account and transfer all the remaining money to County Revenue Fund account by 30 June 2013.

However, and although letters directing the banks to close some accounts were availed, it could not be confirmed with certainty that all the accounts were closed.

An analysis of each account is given:

Account Name	Account Number	Details
Salaries account Co-operative Bank		<ul style="list-style-type: none"> ✓ No evidence that the account was closed ✓ No bank reconciliation as at date of closure ✓ The account balance as at 23 May 2013 was Kshs 317,340.90 ✓ No certificate of balance at close of

		<p>account</p> <ul style="list-style-type: none"> ✓ Cash book not updated balance as at 30 April 2013 Kshs.2,118,015.72
Kazi Kwa Vijana Co-operative Bank		<ul style="list-style-type: none"> ✓ No evidence that the account was closed ✓ No bank reconciliation as at date of closure ✓ The bank statement at closure of account ✓ No certificate of balance at close of account ✓ Cash book not updated. Balance as at June 2012 Kshs 38.20
Local Authority Transfer Fund		<ul style="list-style-type: none"> ✓ No evidence that the account was closed ✓ No bank reconciliation as at date of closure ✓ The bank statement at closure of account ✓ No certificate of balance at close of account ✓ Cash book not updated
General Rate Fund		<ul style="list-style-type: none"> ✓ No evidence that the account was closed ✓ No bank reconciliation as at date of closure ✓ No bank statement at closure of account ✓ No certificate of balance at close of account ✓ Cash book not updated
Poverty Reduction Fund		<ul style="list-style-type: none"> ✓ No evidence that the account was closed ✓ No bank reconciliation as at date of closure ✓ No bank statement at closure of account ✓ No certificate of balance at close of account ✓ Cash book not updated
Kenya Roads Board		<ul style="list-style-type: none"> ✓ No evidence that the account was closed ✓ No bank reconciliation as at date of closure ✓ No bank statement at closure of account ✓ No certificate of balance at close of account ✓ Cash book not updated
Renewal Fund		<ul style="list-style-type: none"> ✓ No evidence that the account was closed

Account		<ul style="list-style-type: none"> ✓ No bank reconciliation as at date of closure ✓ No bank statement at closure of account ✓ No certificate of balance at close of account ✓ Cash book not updated
---------	--	---

It was generally observed that there is no clear cut-off on the operations of the Town Council with those of the County Government.

Recommendation

All alterations on revenue overcharge should be authorized by a responsible officer with relevant reconciliations accompanying the alterations.
Bill numbers should be captured on the invoices issued to improve accountability.

Miscellaneous receipt books should be produced for audit and cash books updated.

Bank reconciliations should be prepared as at the time the accounts were closed and bank statements produced up to the time the accounts were closed.

2.5.5 Creditors

An audit examination of records maintained at the defunct Mariakani Town Council revealed that as at 30 June 2013, the Council owed creditors an amount totalling Kshs.57,604,432.40. The creditors' bills were in respect of advocates fees, audit fees, valuation fee, supply of various goods and fuel and unsurrendered collection to LAP TRUST, COTU and LAPFUND. These bills were incurred between 2011 and June 2013.

Recommendations

The County Government should settle the amounts owed to the creditors.

2.5.6 Local Authority Transfer Fund

i) Purchase of Side Loader for Garbage Collection Truck

The Council purchased a side loader from a local company for Kshs.7,900,000.00. The tender for the purchase attracted three bids.

An analysis of the tender documents revealed that the three firms had offered to supply trucks that had three different specifications. This therefore implied that the three firms could not have been evaluated on the same basis. Therefore, awarding the tender any of the three firms would amount to single sourcing. It was observed that despite the situation the Tender Committee went ahead to award the tender to the lowest bidder. However it was observed that the Council did not conduct a market survey to establish the prevailing market price.

The budget for this item was Kshs.4,500,000.00 and the actual expenditure was Kshs.7,900,000 and therefore the Council incurred an over expenditure of Kshs.3,400,000.00 without authority.

Recommendations

Evaluation should be undertaken on bids having similar specifications to avoid treating bidders unfairly.

Bids that do not meet specifications should be disqualified and if remaining bids do not meet the required threshold to promote competition then the tender should be re-advertised. This would assist the institution to get value for money in its transaction.

ii) Incomplete Projects

The Council undertook various projects during the year 2012/2013 through the sponsorship of LATF. It was however observed that some projects remained incomplete due to non-payment. The non-payment was occasioned by the Council's failure to receive the third and final disbursement of LATF.

Recommendation

The County Government should consider finishing the project so that the benefits can accrue to the community. Projects should be undertaken with the availability of funds.

iii) Planning of Trading Centre

The Council through cheque number 201 paid Kshs.375,000.00 to physical planning officials for planning of various trading centers. The payment was not accounted for as the money were paid based on a budget and there was no evidence to show that the physical planning officials received the money.

Recommendation

The payment should be properly accounted for and the plans be produced so that value for money can be obtained.

iv) General Rate Fund Expenditure

A scrutiny of GRF expenditure revealed some expenditure with no proper support schedules. It was therefore not possible to confirm, the accuracy, authenticity and regularity of the expenditure.

Further, operating expenditure of the Council as per the financial statements prepared as at 28 February stood at Kshs.104,305,877.00. This is the time the defunct Council ought to have ceased operations. However a scrutiny of the Council expenditure ledger revealed that the Council continued in operation and the total

operating expenditure stood at Kshs.109,016,158.00. This gives an implication that Council spent a total of Kshs.4,710,281.00 in the period between March and June, 2013 for which it could not be confirmed whether authority was given.

Recommendation

All expenditure should be well supported.

2.6 Information Systems assessment

2.6.1 IT Control environment

Assessment of how the County has put in place structure to govern and manage the information systems in place revealed the following:

i) Management of IT operations

In order to effectively and efficiently govern and manage the IT operations, the County is yet to develop some of the key ICT documents including:

- ICT policies and procedures
- Network Diagram
- Business Continuity Plans
- Disaster Recovery Plans

ii) IT organization structure

The County IT department has nine (9) personnel but there are no defined roles and responsibilities on how to oversee the IT operations hence there is no clear segregation of duties.

iii) Non-training of ICT staff on applications in place

An interview with the ICT staff at the county revealed that they have not been trained on the applications that are in place at the county. The ICT staffs have not been trained on IFMIS and IPPD and therefore they could not offer the necessary ICT support to users as it is required.

iv) Staff Training on IFMIS

Fifty seven (57) officers of the County have been formally trained on IFMIS at Kenya School of Governance (KSG). However, only seven (7) user rights access to the system.

v) IT Budget

The county has an allocation of Kshs.160,804,030.00 for ICT in the 2013/2014 county budget. The budget is broken down into Kshs.117,304,030.00 for recurrent and Kshs.43,500,000.00 for the development.

vi) Website

The county has a running website page and mail domain i.e. www.kilifi.go.ke and mail.kilifi.go.ke respectively, 15 staff members are on official email. The mail server and web were been hosted by E- Government.

2.6.2 Hardware

The County had received nineteen (19) computers, eleven (11) special orange CDMA modems, 16 UPSs and one (1) from the National Treasury (IFMIS Department) which will be solely used for IFMIS. The Interim ICT Manager has not been able to carry out an assessment of the ICT status and infrastructure of the County. Further, there was no ICT register kept or assessment of the existing infrastructure done.

The County is in the process of setting a data center (server room) at the headquarters. However, the previous councils' (Malindi Municipal and County, Kilifi and Mariakani County Council have servers which are still been used for LAIFOMS. A physical inspection of the data center indicated that it does not have adequate physical and environmental controls. Some of the controls lacking include reinforced physical doors, air conditioning systems, smoke detectors and fire extinguishers.

2.6.3 Network connectivity

There is no established Wide Area Network at the County to connect the various Sub-County offices. There is a Local Area Network at the former Mariakani Town Council, former Municipal and County Councils' of Malindi, and Kilifi offices.

2.6.4 Integrated Financial Management Information Systems (IFMIS)

IFMIS has been installed in the County offices with only Budgeting module being operational. The computers use Orange CDMA Modems to connect to IFMIS through the Treasury's Virtual Private Network (VPN). The Orange connectivity is fairly stable though the users complained of system downtime. Currently, all payments are done manually by use of cheques.

2.6.5 G-PAY

The County had received one computer from the National Treasury which is dedicated for G-Pay. Training for G-Pay had been undertaken for three (3) officers, Two (2) signatories and One Officer as the paying cashier

2.6.6 IPPD

The County has fully installed the IPPD system and the payroll beginning July 2013 was processed using the system. There are five (5) trained users and one administration who is the manager in charge. Analysis of the complement and payroll data revealed that there were thirteen (13) officers with invalid ta PIN numbers.

2.6.7 LAIFOMS

LAIFOMS had been installed in four (4) out of Five (5) former councils, namely County Council of Kilifi, Town Council of Mariakani, Municipal and County Councils of Malindi. Kilifi Town council was still running manual revenue collection system.

From 1 July 2013 the Budget was prepared through IFMIS. A review of the system at the councils revealed the following under banking/overbanking in the following councils:

Council Underbanking/(Overbanking)	1 JULY 2012 to 4th March 2013	4 th March 2013 to 30 June 2013	Total underbanking /Overbanking
Kilifi County Council	4,682,165.00	(3,694,135.00)	988,030.00
Malindi County Council	1,771,928.00	2,236,616.00	4,008,544.00
Municipal Council of Malindi	100,887,961.00	74,277,996.00	175,165,957.00
Town Council of Mariakani	8,663,351.00	(248,870.00)	8,414,481.00
			188,577,012.00

2.6.8 Anti-virus software

The County has in place single user licenses anti-virus software installed for newly purchased computers. The anti-virus was up to date and licenses were still valid. However the computers taken over from county and municipal councils had expired licenses.

Recommendations

- The County should develop and approve the key ICT documents that ensure proper management of IT operations. These documents govern key IT operations including use of passwords, back-ups, maintenance of IT equipment, and continuity of IT critical operations in the event of a disaster and network management. In addition, these documents should also be circulated to staff so as to create awareness and ensure compliance.
- The County should consider having a wide area network (WAN) that connects all the sub-counties with the county headquarters so as to ensure that operations are centrally managed
- The management should ensure that all revenue collected and banked should be captured in the LAIFOMS so that timely reconciliation can be done
- The ICT department, being a strategic resource, needs to be adequately staffed and with defined roles so as to effectively manage the IT operations of the county
- The payroll data in IPPD needs to be cleansed to ensure accurate information is captured.

Conclusion

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

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

Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

12 March 2014