

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

**REPORT**

**OF**

**THE AUDITOR–GENERAL**

**ON THE**

**FINANCIAL OPERATIONS**

**OF**

**THE COUNTY GOVERNMENT OF**  
**MOMBASA AND ITS DEFUNCT**  
**LOCAL AUTHORITIES**

**FOR THE PERIOD**  
**I JANUARY TO 30 JUNE 2013**

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

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## **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 Further, the County Government Act, 2012 Section 134 (1) repealed the Local Government Act, Cap 265, and thus effectively dissolving all the 175 Local Authorities and creating 47 County Governments.

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

### **2.0 Audit Objectives**

The audit covered the County Executive and County Assembly and the former Municipal Council of Mombasa 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 verifications and confirmations of transactions in respect to but not limited to the following areas:

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

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

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

### **3.0 Key Audit Findings and Recommendations**

#### **Mombasa County Executive and County Assembly**

##### **3.1 Failure to take over the Assets and Liabilities of the Defunct Municipal Council**

The county Government of Mombasa had not taken over the Assets and Liabilities of the defunct Mombasa Municipal Council as at the time of the audit September 2013. This is contrary to the instructions issued by the Ministry of Local Government vide circular No. MLG/1333/TY/52 of 18 February 2013. As result, the County Government had no records of assets and liabilities owned by the former Municipal Council as well as other outstanding debts.

The Transition Authority should arrange for proper handing over of assets, liabilities and staff of the former Municipal Council to the County Government to enable the County Government have a basis of opening balances to be reflected in its books of account.

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

###### **(i) Cash and bank balances**

Although the County Government opened the Bank accounts as required, banking were being made to the old account of the defunct municipal council. Accounts of the defunct municipal were closed in June 2013 instead of February 2013. Out of the twenty (20) bank accounts operated by the defunct council only five (5) were disclosed in the handing over report leaving the other fifteen (15) undisclosed. The County Government was to take over overdrawn bank accounts (Overdraft) amounting to Kshs.1,154,575,827 The County Government did not open bank accounts at the sub county level for banking of the revenue collected at the sub county.

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

###### **(ii) Creditors / Account Payables**

The County Government was to take over overdraft of about Kshs 1.1 billion. There were unremitted payroll deductions amounting to Kshs.1,032,980,755 as at February 2013. There were un-cleared cheques amounting to Kshs.340,254,981 most of which were not dispatched to the payees and the total liabilities to be taken over from the defunct municipal were Kshs.3,368,724,000. These liabilities were not verified by the Transition Authority to confirm their genuineness and completeness. The County Government had not set out strategies on how to pay out those huge liabilities acquired from the defunct Municipal.

The creditors' balances should be independently confirmed before effecting any payments.

### **(iii) Debtors / Receivables**

The Transition Authority did not verify the completeness and genuineness of the debtors figure of Kshs.12,648,847,810 in the handing over report. There was a variance of Kshs.199,697,190 between the debtors in the handing over report and the underlying documents of the defunct council as at 4 March, 2013. The County Government inherited Rose Kanini's outstanding rates of Kshs.6,889,633,642 for 4,000 plots. This is a fictitious debtor who does not exist. Most of the debts inherited did not have proper documentation to enable recovery.

The County Government should develop an appropriate system for recording debtors to ensure accuracy of the records. Inherited debtors balances should be independently reconciled and confirmed. Also, debt collection policy should be put in place to facilitate collection of County debts as and when they fall due.

### **3.3 Non-Current Assets**

Some parcels of land in the assets register did not indicate the value and land registration number. The assets register did not indicate serial number of the electronics and computers, condition, date of purchase and location and the computer and equipment inventory list did not separate computers from other equipment's. There was a variance on the reported value of assets as per assets register, handing over report and the un-audited financial statements for the period ended. Eleven motor vehicles and eight boarded vehicles were omitted from the handing over report. The Office of the Transition Authority did not verify the list of assets being handed over to ascertain completeness and the County Government did not maintain a consolidated register for all its assets. All assets were still in the name of the defunct Municipal council.

The County Government should take stock of all its assets and ensure that a master Fixed Assets Register is maintained which should clearly indicate values and locations of all its assets. Ownership documents for all should also be obtained.

### **3.4 Revenue**

Kshs.64,919,845 being revenue collected between March 2013 and June 2013 was directly spent. The cash from revenue collections was used to en-cash suppliers' cheques and revenue received on account of the county government was banked in the defunct municipal council's bank accounts even after opening of the county Government bank accounts. The county government did not take charge of all revenue collection points.

The County Government should ensure that a receipts cashbook is properly maintained where revenue collected is promptly recorded and banked and strong internal check system put in place to ensure proper accountability of revenue at every stage in the

revenue collection cycle. Investigate the direct expenditure and hold responsible officers to account for non-compliance with law.

### **3.5 Staff / IPPD Payroll**

Sixty (60) employees of the defunct municipal who had been suspended from employment some for even more than five (5) years were reinstated in February 2013. Some of them had served jail term for work related offenses. There was no inventory of specific number of employees from the defunct councils to be inherited by the County Government produced for audit verification. The handing over report had a figure of 2,555 employees while the February payroll had 2,566 and the employee validation report 2,558. It was noted that the County Government was employing new staff before carrying out job evaluation and assessment of human resource need of the county Government to support future rationalization.

This irregularity of hiring suspended employees should be further investigated to assess whether there are grounds to bring charges to culpable officers in relation to various offences including abuse of office. Future appointments should be carried out in line with the constitutional requirements in terms of gender and ethnic background. Job evaluation should be carried out to ascertain optimum staff requirements and to identify skill gaps for future recruitment plans.

### **3.6 Expenditure**

The following irregularities were observed:

- Purchases of paints amounting Kshs.1,462,551.00 via PV No. 0262 was not supported with documentary evidence including delivery note, invoice and signed GRN.
- Imprest held in the office of Kshs.3,000,000 was above the recommended Kshs.700,000 by Public Financial Management Act.
- There were outstanding I Owe You (IOU's) of Kshs.5,091,347 as at the time of the audit in contravention of financial regulations and procedures in place.
- Payments of Kshs.1,145,165, Kshs.1,172,885 and Kshs.1,166,861 made to Matatu welfare in the months of July, August and September 2013 were not supported with documentary evidence. Also unsupported are amounts of Kshs.7,996,693 in respect of motor vehicle running expenses (fuel, tyres, and repairs).
- The Governor hired a chopper at Kshs.738,715 for the Nandi Visit which could not be justified..
- Amounts totaling Kshs.33,000,000 paid to private lawyers without county Government authority in the months of March 2013 could not be justified.

The County Government should develop an appropriate system for recording cash receipts and payment to ensure accuracy of the records. Imprests issued must be surrendered or accounted as required by the financial regulations in place. Documents supporting the expenditure should be provided and no expenditure should be incurred for any other purposes other than the intended. These irregularities should be

investigated and culpable officers be charged with various offences including abuse of office.

## **Defunct Mombasa Municipal Council**

### **1.0 Handing over**

The Council did not prepare a comprehensive handing over report as required by the Transition Act. The handing over report was not facilitated by the Transition Authority. Hence there was no official handing over.

The Transition Authority should arrange for proper handing over of assets, liabilities and staff of the former Municipal Council to the County Government to enable the County Government have a basis of opening balances to be reflected in its books of account.

### **2.0 Current Assets And Liabilities**

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

Bank accounts operated by the defunct council were still operational even during the time of audit in September 2013. They were not closed by 28 February 2013 as required by Transition Authority Circular No.TA/7/5/(20) dated 12 February,2013. Revenue collected after February 2013 was banked in the council bank accounts.

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

#### **(ii) Creditors**

The Municipal Council had no well-maintained creditors' records. However, the unaudited financial statements as at 4 March 2013 had a balance of Kshs.3,368,724,000 which were not supported with listings. Cheques amounting to Kshs.340,254,982 were still outstanding in the bank reconciliations. The council had unremitted payroll deductions of Kshs.1,032,980,755. Some of the bank overdrafts of the council were not disclosed in the handing over report. The transition Authority did not verify the creditors' balances of the council before handing over.

The creditors should be promptly recorded in the ledgers detailing particulars of each creditor and the same updated on a regular basis. The creditors' balances should be confirmed independently before effecting any payments.

### **(iii) Debtors**

The defunct Council did not maintain proper record for its debtors which led to having different figures during the transition. The handing over report reflected debtors of Kshs. 12,648,847,810 that differed with the unaudited financial statements figure of 12,848,545,00 by unreconciled amount of Kshs.199,697,190. An unjustified debtor, Rose Kanini Hillgartne had outstanding arrears debt balance in respect of 4000 plots of kshs.6,889,633,642. The rate arrears owed by Government ministries and institutions amounted to Kshs.4,999,607,808. Outstanding imprest as at 28 February 2013 amounted to kshs.16,761,000.

The County Government should develop an appropriate system for recording debtors to ensure accuracy of the records. Also, debt collection policy should be put in place to facilitate collection of County debts as and when they fall due.

### **3.0 Non-current Assets**

The defunct municipal council did not maintain an up to date assets register hence, we could not ascertain the accuracy, ownership and completeness of the assets transferred to the county Government. This is contrary to the financial regulations and procedures in place.

An assets register to record assets taken over from the defunct Local Authorities and those being acquired by the County Government should be maintained and updated on regular basis. The assets should be valued to ascertain their fair values.

### **4.0 Revenue**

It was observed that part of the cash revenue receipted of Kshs.64,919,845 was used to en-cash suppliers cheques and on paid for daily operational expenses. Expenditure mostly paid out of cash collections was not properly authorized. Revenue collected after devolution was banked in the defunct Municipal Council bank accounts in contravention Transition Authority guidelines.

The County Government should ensure that a receipts cashbook is maintained where revenue collected is promptly recorded and strong internal check system put in place to ensure proper accountability of revenue at every stage in the revenue collection cycle. Revenue collected should be banked intact in accordance with the requirements of Government Financial Regulations and Procedures.

### **5.0 Information Systems Assessment**

#### **(i) Integrated Financial Management Information System (IFMIS) and G-Pay**

IFMIS has been installed in the County with two (2) operational modules, i.e. plan to budget and procure to pay. The County use Orange CDMA Modems to connect to IFMIS through the Treasury's Virtual Private Network (VPN).



The Orange connectivity is poor due to poor and unstable network signals. Currently the system is operational and has been used to make payments from the month of July 2013

## **(ii) Local Authority Integrated Financial Operations Management System (LAIFOMS)**

LAIFOMS had been installed in former City Council of Mombasa. Beginning 1 July 2013 the Budget was prepared through IFMIS deactivating the Expenditure Module in LAIFOMS.

There were under banking totaling KShs.350,945,194 as per the extract from the LAIFOM system between 1 June 2013 and 30 June 2013. Banking is done manually and the same not cleared through the system to reflect the accurate position.

These under-bankings should be investigated to assess whether there are grounds to bring charges in relation to various offences including abuse of office.

## **Integrated Payroll and Personnel Database (IPPD)**

The County has fully installed the IPPD system, however it has never used the system to process the payroll. The County is using the LAIFOMS payroll module for the former Council workers and maintains an excel sheet for the new workers in the county. There is One (1) trained user who is the manager in charge and is the operator.

A review of Human Resource master data revealed the following integrity issues:

- Some officers had incorrect KRA Personal Identification Numbers or none at all.
- Some 28 officers were without the national ID Numbers captured in the system.
- In the month of May and June 2013, officers who were inactivated from the LAIFOMS payroll were paid a gross pay of Kshs.1,009,330.00 and Kshs.767,750.00.

Action should be taken to address these data entry and control IT problem.

## **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.

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

**Edward R.O. Ouko, CBS**  
**Auditor-General**

**Nairobi**

**17 February 2014**

## **DETAILED REPORT**

### **1.0. Introduction**

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

### **2.0. Audit Objectives**

The following were the main audit objectives:

- ✓ Confirm existence of proper accountability of cash and bank balances before, during and after transition to the County Government;
- ✓ Confirm that revenue and expenditure were recorded and properly accounted for before, during and after the transition period;
- ✓ Confirm that operational debtors and creditors were accurately recorded and transferred from the defunct Local Authority to County Government;
- ✓ Establish assets taken over by the County Government are properly listed, exist and are being used to provide services to the County;
- ✓ Ensure that assimilation of the defunct Local Authority's staff with other County Government staff is seamless and no ghost workers or irregular change of items have been imported in the new IPPD system
- ✓ Ensure County Assembly and Executive Committees comply with the budget and that expenditures;
- ✓ Ensure that ICT system is not circumvented by manual system where IFMIS and G- Pay systems are fully implemented;
- ✓ Confirm that where manual systems are in use, proper accountability system is put in place and specific plans for system change over exist;
- ✓ Confirm that procurement of goods and services

## **1. DETAILED FINDINGS**

### **1.1 County Executive**

#### **1.1.1 Handing over during transition**

As per the Transition to Devolved Government Act, 2012, Section 7 {2- (e & g)}, the Transition Authority was to validate an inventory of all the existing assets, liabilities and human resource of the defunct local authority as at 28 February 2013. We were informed that there was a hand-over between the former Town clerk and the County Government's Operations Manager. The hand-over was not facilitated by the office of the Transition Authority.

## **Recommendations**

The County Government should consult the office of Transition Authority to facilitate hand – over in compliance with County Transition Act. The office of the Transition Authority is mandated to coordinate the handing – over and ensure that all defunct local authority’s assets and verified liabilities are transferred and acknowledged by the County Government.

The official report may also form basis for stating the financial position of the County Government as at the inauguration. Official hand over may minimize the risk of misappropriation of assets and acceptance of the defunct local authority’s obligations.

### **1.1.2 Cash and Bank**

As per County Government Public Finance Management Act, 2013, the Transition Principal Officer was to close all bank accounts operated by the defunct local authorities and transfer of cash and bank balances to new opened bank accounts. Consequently, the Transition Principal Officer was to open Revenue Collection bank accounts at sub–counties and County Revenue Fund account either at CBK or KCB where revenue in Collection accounts was to be swept to CBK.

## **Observations**

### **Pre-transition period**

- All the defunct Municipal Council bank accounts had not been closed as at the time of audit. Out of the twenty (20) bank accounts operated by defunct Municipal Council, only four (4) bank accounts were disclosed in the handing –over report.
- Noted encashment of supplier cheques by cashier;
- There were 963 outstanding cheques in main account as at 28/02/2013 valued at Kshs.333,347,866 with Kshs.79,342,633 relating to the year 2012.
- Stale cheques valued at Kshs.229,856,509 had not been reversed.
- Kshs.5,514,838 cash could not be accounted at the cashier’s office.

### **Transition period**

- Bank accounts of the defunct Municipal Council were not closed and funds transferred to County Government bank accounts;
- New bank accounts for the County Government were not immediately opened at the Sub–County level for revenue collection;
- Revenue collected was not banked intact and swept to County Revenue Collection Fund.

## **Post - transition period**

- Bank accounts of the defunct Municipal Council were not closed and funds transferred to County Government bank accounts;
- Revenue collected was not banked intact and banked to County Revenue Collection Fund Account.

## **Recommendations**

- County Government should comply with Government Public Finance Management Act, 2013 and ensure that all defunct Municipal Council bank accounts are closed and funds therein transferred to County Government bank accounts.
- The County Treasury should comply with all relevant legislations regarding expenditure to ensure that approval by Controller of Budgets is obtained before any expenditure is incurred / paid.
- Comply with cash control measures which prohibits encashment of supplier cheques. The County Government should monitor its bank accounts to ensure that cheques are only written when bank accounts have sufficient funds.
- Review bank reconciliations and reverse all stale cheques by debiting the cash book and crediting the creditors' ledger to restate the balances.
- An investigation should be instituted on the missing cash and appropriate remedial measures taken against any officer found to have been involved. Where there is evidence of misappropriation, recovery steps should commence.

### **1.1.3 Assets**

Assets of the defunct Municipal Council including motor vehicles, office equipment and furniture were to be transferred to the County Government and can be verified. Properties are registered in name of County Government through transfer of ownership. All assets of the County Government are used for County public use only.

## **Observations**

### **Pre-transition period**

- Some parcels of land in the asset register did indicate value and land registration number.
- The Asset register did not indicate serial numbers of electronics and computers, condition, date of purchase and location;
- The Computer and Equipment Inventory list did not separate computers from other equipment;
- There was variance on the reported value of assets as per Asset register, handing over report and unaudited financial statements.
- Eleven (11) motor vehicles and eight (8) boarded vehicles were omitted from the hand-over report.

## **Transition period**

- Office of the Transition Authority did not verify / audit assets of the defunct Councils and provide a report on their value and status.

## **Post-transition period**

- The County Government did not maintain a consolidated Asset Register of all the assets and inventory owned by the County Government including assets that were owned by the defunct councils;
- Ownership of the assets had not been transferred to the County Government while documents of ownership were still in the custody of the defunct councils.

## **Recommendations**

- The County Government should review asset register and ensure that all vital information including cost, date of purchase, supplier, serial number, code number, location / custodian, depreciation charge and condition for ease of asset tracking. Assets secured on loan facilities should be disclosed with details on the lending bank, principal loan, interest rate and payment schedules.
- The asset register should clearly separate various categories of assets according to the accounting standards where land, buildings, office equipment, motor vehicles, computers and software should be separately categorized. The correct values should be agreed to financial statements to support the balances.
- The County Government should expeditiously transfer ownership of all properties registered in the defunct Municipal Council's names to County Government's name to minimize the risk of losing such properties through illegal transfers. Additionally, the County Government should apply for replacement of any lost land title deeds and log books from the relevant government agencies e.g. Ministry of Lands and KRA.
- County Government should confirm with Land Registry the true ownership and corresponding title deeds of all suspicious parcels of land including those with more than one title deed.
- The County Government should audit all the County assets to ensure that all assets appear on the Asset register and correctly valued for ease of tracking.

### **1.1.4 Revenue**

County Governments were required to open and maintain revenue collection bank accounts at sub-counties where revenue receipts were to be banked intact and swept directly to County Revenue Fund account that was to be opened either at KCB or Central Bank of Kenya.

According to the County Appropriation Act, County Revenue Funds can only be withdrawn upon request of the County Treasurer and authorized by the Controller of Budgets.

Additionally, County Governments are expected to put in place proper controls to ensure all revenues are collected and accounted for.

## **Observations**

### **Pre-transition period**

- Part of cash revenue collections was used to encash supplier cheques;

### **Transition period**

- Kshs.64,919,845 cash revenue collected between March 2013 and June 2013 was spent directly;
- Cash revenue collections was used to encash supplier cheques;
- Revenue was banked in the defunct Municipal Council bank account at Co-operative bank even after opening the new County Revenue Fund account at CBK.

## **Recommendations**

- The County Government should comply with all the relevant legislations including Government Public Finance Management Act, 2013 which requires that all County revenues be banked promptly and intact into the Revenue Collection accounts at sub-counties and swept to County Exchequer account.
- County Treasury should submit an expenditure requisition to the Controller of Budgets for authorization. No direct spending should be done from revenue collections without prior approval of the Controller of Budgets.

### **1.1.5 Creditors**

Liabilities of the defunct Municipal Councils were to be validated by the Transition Authority before being transferred to the County Government. No illegal claims were inserted in the books during the transition period.

## **Observations**

### **Pre-transition period**

- Balance of outstanding liability was not disclosed in the handing over report. However, the unaudited financial statements as at 4 March 2013 presented to us indicated a liability of Kshs.3,368,724,000 for the nine (9) months being an increase of Kshs.1,038,120,000 as compared to 2011/2012 financial year.

- Cheques amounting to Kshs.340,254,981 were outstanding in the bank reconciliations as at 28 February, 2013
- Unremitted payroll deductions amounting to Kshs.1,032,980,755 were outstanding as at 28 February 2013;
- Loan facilities with financial institutions were not disclosed in the handing over report.

### **Transition period**

The Transition Authority did not verify liabilities of the defunct Councils to ensure that only authorized and supported balances were transferred to the County Government.

### **Post-transition period**

- The County Government did not verify outstanding liability inherited from the defunct Councils.
- The County Government had not put in place strategies of settling the liability

### **Recommendations**

- Review creditors and borrowings and ensure handed over liability was authorized and approved by the Municipal Council. Officer found to have violated the laid down procedures should be held accountable.
- The County Government should review and reconcile all liabilities transferred from the defunct Municipal Councils and ensure creditor balances are correctly stated in books and handing-over report. Cheques which were written and not dispatched to suppliers and stale cheques should be reversed to reflect the correct balances.
- Investigate the reason for unremitted payroll deductions and responsible officers should be held to account for exposing the employees and County Government to various risks including fines and penalties.
- An updated list of all the lenders, loan amount, interest rates, repayment schedule, outstanding balance and security attached should be availed. Loan contracts and Municipal Council minutes approving the borrowing should be verified by the County Government. This would ensure that the County Government plan on how to service the debts.

#### **1.1.6 Debtors**

All defunct Municipal Councils' operational debtors were to be transferred to the County Government and be proper management of the County Government receivables. That all payments are received by the County Government and no unauthorized write-offs made.



## Observations

### Pre-transition period

- Noted a debtors' balance variance of Kshs.199,697,190 between the handing over report and unaudited financial statements as at 4 March 2013 as follows:

Handing over report	-	Kshs.12,648,847,810
Unaudited financial statement	-	Kshs.12,848,545,000

- Rose Kanini Hillgartne had a cumulative book balance of Kshs.6,889,633,642 rates arrears from 4,000 plots. The debt balance as at 30 June 2012 stood at Kshs.4,578,506,5434
- Rate arrears owed by Government ministries and institutions amounted to Kshs. 4,999,607,808
- Outstanding staff imprest was Kshs.16,761,000 as at 28 February 2013.

### Transition period

The Transition Authority did not verify debtors of the defunct Council to ensure that only supported and recoverable balances were transferred to the County Government.

### Post-transition period

- The County Government had not verified outstanding debtors inherited from the defunct Council;
- There was no notable effort by the County Government to collect the outstanding debts.

## Recommendations

- The County Government should audit and map the geographical territory to capture all plots within the Mombasa County and match to their respective landlords. A reconciliation of the rates account should be done to confirm the correct amount receivable.
- Investigate plots registered in the name of Rose Kanini to ascertain the existence of such plots, the reasons for the outstanding debt and that it is not a case of absentee landlord. The County Executive should consider waiving uncollectable debts, outsourcing debt collection or take legal steps to repossess properties which are in arrears. Additionally, the County Government should explore the benefits of technology to improve its debt collection including; texting reminders send statements by email and receive payments e.g. M-pesa.
- The County Executive should negotiate with the National Government on how to settle debts owed by various ministries and government institutions.
- Staff should be informed to settle their imprest failure to which such balances should be recovered from their salaries. No imprest should be issued to a staff whose

account is in arrears. Officers who violate this regulation should be held to account for un-surrendered imprest.

### **1.1.7 Staff / IPPD payroll**

There shall be seamless assimilation of Local Authority staff with other County staff and no ghost workers or irregular change of terms have been imported in the new IPPD payroll.

#### **Pre-transition period**

- Sixty (60) defunct Municipal Council employees who had been suspended from employment some more than five (5) year were reinstated in February, 2013. Some of the reinstated employees had served jail terms for work related offenses.
- The handing over report indicated an estimated number of staff as at 28 February, 2013 was 2,555 employees
- Number of employees as per February, 2013 payroll was 2,566, while Employee Validation report prepared as at August, 2013 indicated 2,558 employees.

Our salary analysis indicated that there was 68% (Kshs.35,569,072) increase in Salary cost from the month of February, 2013.

#### **Transition period**

Office of the Transition Authority did not conduct a census of staff of the defunct Councils to ensure that ghost workers were not transferred to the County Government's payroll.

#### **Post-transition period**

- The County Government did not verify staff taken over from defunct Councils to ensure that only validly employed workers were inherited;
- The County Government had not carried out an assessment of the human resource need of the County Government to support any future rationalization plans.

#### **Recommendations**

- County Government should assess its human resource needs and come with modalities of rationalization in order to achieve an efficient and effective work force in terms of numbers and skills without compromising service delivery. An audit of the current workforce should be commenced to establish the number of productive employees during the transition.
- Investigate legality of the reinstating of the former employees line with relevant laws governing employment of public servants.

### **1.1.8 Expenditure**

Confirm that all expenditure was recorded and properly accounted for during the transition period. All County Government expenditure adheres to the County Appropriation Act where all expenditure are requested by the County Treasury and authorized by the Controller of Budgets.

#### **Observations**

##### **Pre-transition period**

- Cheques drawn to some service providers were encashed at the cashier;
- Cash purchases of spare parts via PV no. 1209 – 0117 were not supported with requisition note and LSO / LPO;
- P.V. No. 0262 for payment of paints costing Kshs.1,462,551 was not supported with; delivery note, invoice and a signed Goods Received Note (GRN)

##### **Transition period**

- From the audit sample, a total of Kshs.32,966,848 was irregularly paid from imprest.

##### **Post-transition period**

- Imprest held was above the Public Financial Management Act stipulated of Kshs.700,000 per week. We noted incidences where over Kshs.3,000,000 was held;
- Outstanding I.O.U.s were Kshs.5,091,347 as at the time of audit
- No documented support was availed for payments made to Matatu Welfare Association Coast Branch bills of; Kshs.1,145,165, Kshs.1,172,885, and Kshs.1,166,861 for the months of August, September and July, 2013;
- Kshs.7,996,693 paid by County Government for motor vehicle running expenses (fuel, tyres and repairs) was unsupported.

#### **Recommendations**

- All payment vouchers should be supported with relevant documents as evidence of expenditure incurred and to provide an audit trail.
- The County Executive should review agreements signed by the defunct Municipal Council and evaluate the viability of such contracts in line with Government's objectives of public service delivery. Contracts that lead to misuse of public funds should be cancelled and officers implicated should be held to account.
- Investigate all irregular imprest payments including IOUs and responsible officers should be held to account for any payments. There should be proper accounting of imprest to ensure that amount held is within the stipulated limits. Staff with IOUs should settle their accounts or the amount recovered from their salaries.

- The County Executive should ensure County public funds are used prudently in for the good of the public and service delivery to avoid cases of extravagant spending. The County Government should adhere to the Public Financial Management Act (PFM), County Appropriation Act and other related legislations before it incurs expenditure. The county treasury should always seek approval of the Controller of Budgets before committing funds to other Vote heads.

## **Procurement**

The objective was to verify that procurement undertaken during the transition period were properly authorized, goods were received and services were rendered.

## **Observations**

### **Pre-transition period**

- The defunct Municipal Council procured six (6) bulk filling cabinets in the month of February, 2013 at a price of Kshs.950,000 each. Only two (2) bulk cabinets had been budgeted for in the Procurement plan. By the time of audit, the cabinets had not been put into use;
- During the month of February, 2013, twenty one (21) water dispensers were purchased at a price range of Kshs.48,000 to Kshs.51,000 per dispenser. A market survey indicated that a similar dispenser would cost Kshs.15,000;
- There were procurements made from suppliers who were not pre-qualified;
- Inconsistency on PV 1302-0221 for supply of sodium high pressure fittings where the cheque was dated 27 February 2013 while payment authorization and approval was made on 28 February 2013. Additionally, the invoice was dated 25 January 2013 while delivery note date was 25 February 2013. Goods Received Note, Stores Ledger was attached to the payment voucher.

### **Post - transition period**

- Unjustified hire of a chopper at Kshs.738,715 for the Governor's visit to Nandi County.

## **Recommendations**

- The County Government should ensure compliance with the relevant legislations on procurement including PPOA to guide the procurement activities. This would ensure that only items / services on the annual plan are procured and only from pre-qualified suppliers.
- The County Executive should investigate the exorbitant prices charged and any officer found to have colluded with suppliers to defraud the County Government should be held to account. Suppliers found to have charged unjustified high prices should be barred from doing any business with the County Government in future.

- Investigate any suspiciously made payments made without proper approval, lack support documents or with inconsistent information. Officers found to have been responsible for the irregular payment should be held to account accordingly.
- The County Government should comply with all relevant laws and regulations on financial management of funds including the PFM Act and PPOA to ensure that public funds are prudently used.

### **1.1.9 Legal fees**

Verify lawyers' balances, confirm that lawyers were legitimate and review prompt payments to advocates during the transition period.

## **Observations**

### **Pre-transition period**

It was noted that Kshs.372,088,000 was owed to various advocates by the defunct Municipal Councils at 4 March, 2013 as per unaudited financial statements.

Further, legal fees amounting to Kshs.33,000,000 were paid during the months of February and March, 2013 to various law firms.

## **Recommendations**

- The County Government should explore the possibility of empowering the legal department so that most of its cases are handled by internal officers.
- The Legal department should advise the County Executive on the viability of a suit before engaging an external law firm. Some cases should be handled by the Legal Department to avoid high legal fees from external lawyers.

## **1.2 Information Systems assessment**

### **1.2.1 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:

#### **1.2.1.1 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

### **1.2.1.2 IT organization structure**

The county IT department has twelve (12) personnel. The county has an IT department organogram which defines the roles and responsibilities on how to oversee the IT operations in the county. The county has budgeted to hire twenty (20) more staff to fill in the vacant posts in the organogram.

### **1.2.1.3 Non-training of ICT staff on applications in place**

Our interview with the ICT staff at the county revealed that two (2) ICT Staff had been trained on the IFMIS application, but only as users but were not trained for G-PAY and IPPD and therefore they could not offer the necessary ICT support to users as it is required.

### **1.2.1.4 Staff Training on IFMIS**

Sixty three (63) officers of the County have been formally trained on IFMIS at the Kenya School of government, However only thirteen (13) officers have rights to access two modules of the system i.e. plan to budget and procure to pay

### **1.2.1.5 IT Budget**

The county has an allocation of Kshs.225,000,000 million for ICT in budget. At the time of audit the county was doing adjustments on their budget since it was been altered to comply with the directive from the comptroller of budget office, hence unable to provide a breakdown on how to use the budgeted amount.

## **1.2.2 Hardware**

The County had received twenty (20) computers, twenty (20) special orange CDMA modems and one scanner 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, there was no ICT register kept or assessment of the existing infrastructure done.

The County has one (1) data center (server room) previously used for LAIFOMS. A physical inspection of the county data centers at the former Municipal Council of Mombasa indicated that it does not have adequate physical and environmental controls. The site lacks smoke detectors and fire suppression system.

## **1.2.3 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 Municipal Council of Mombasa offices, which Interlinks the LAIFOMS System.

#### 1.2.4 Integrated Financial Management Information System (IFMIS)

IFMIS has been installed in the County with two (2) modules operational, i.e. plan to budget and procure to pay. The county use Orange CDMA Modems to connect to IFMIS through the Treasury's Virtual Private Network (VPN). The Orange connectivity is poor due to poor and unstable network signals. Currently the system is operational and has been used to make payments from the month of July 2013.

#### 1.2.5 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 one (1) officer, the Principle Finance Officer, who operates the system.

#### 1.2.6 Integrated Personnel and Payroll Database (IPPD)

The County has fully installed the IPPD system, however it has never used the system to process the payroll. The county is using the LAIFOMS payroll module for the former Council workers and maintains an excel sheet for the new workers in the county. There is one (1) trained user who is the manager in charge and is the operator.

#### 1.2.7 Local Authority Integrated Financial Operations Management System (LAIFOMS)

LAIFOMS had been installed in former city council of Mombasa. Beginning 1 July 2013 the Budget was prepared through IFMIS deactivating the Expenditure Module in LAIFOMS.

A review of the system at the council revealed an under banking as shown

	1 June 2012 to 4 July 2013	4 July 2013 to 30 June 2013	Total Underbanking
<b>Under Banking</b>	<b>293,762,314.00</b>	<b>57,182,880.00</b>	<b>350,945,194.00</b>

Most of the banking were manually done but not captured in the system, between 1 June 2012 to July 4 2013, from July 4 the under banking arose due to garnishee court orders which froze the county accounts hence it had to use some of the revenue collected to run its operations from the cashier.

##### 1.2.7.1 LAIFOMS (Human Resource Module)

At the time of audit the county was still using LAIFOMS to run its payroll and manage its human resource. Analysis of the Human Resource master data and payroll revealed the following:

### **1.2.7.2 Officers without PIN Nos.**

It was revealed that the county had four and forty two (442) officers who had no pin or had faulty pin numbers.

### **1.2.7.3 Officers without ID**

Interrogation of the county human resource data further revealed that there were twenty eight (28) officers who had no id numbers.

### **1.2.7.4 Payment to Inactive officers**

It was also revealed that there were officers in the county who were still receiving salary however, their employment status was inactive for the months of May and June 2013. The total gross payments for the months were **Kshs.1,009,330.00** and **Kshs.767,750.00** respectively.

### **1.2.8 Anti-virus software**

The County has in place for one hundred single user anti-virus licenses (100) for Personal computers and Laptops. The anti-virus was up to date and licenses were still valid.

## **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 may 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, as 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 LAIFOMS needs to be cleansed to ensure accurate information is captured.
- The IT County Department should be enhanced in terms of personnel to adequately manage the IT operations in an efficient and effective manner
- The county should ensure there are enough users for IFMIS and GPAY to ensure smooth operations in terms of procuring, invoicing and processing of payments.
- The county should commence use of IPPD to run their payroll immediately



## **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.

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

**Edward R.O. Ouko, CBS**  
**Auditor-General**

**Nairobi**

**17 February 2014**