

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

REPORT

OF

THE AUDITOR–GENERAL

ON THE

FINANCIAL OPERATIONS

OF

THE COUNTY GOVERNMENT OF
THARAKA NITHI AND ITS
DEFUNCT LOCAL AUTHORITIES

FOR THE PERIOD
I JANUARY TO 30 JUNE 2013

Table of Contents

EXECUTIVE SUMMARY	1
1.0 Introduction	1
2.0 Audit Objectives	1
Tharaka Nithi County Executive and County Assembly	2
3.0 Key Audit Findings.....	2
3.1 Failure to take over the Defunct Local Authorities.....	2
3.1 Current Assets and Liabilities	2
3.3 Fixed Assets	3
3.4 Revenue Collection	3
3.5 Procurement of Works, Goods and Services	3
3.6 Information Technology (IT) Control Environment	4
3.7 Personnel Records	5
3.8 Implementation Status of Integrated Financial Management Information System (IFMIS) and G-Pay	5
3.9 Other Audit Findings	5
Defunct Town Council of Chogoria.....	5
3.10 Improper Handing Over to Transition Authority/County Government	5
3.11 Current Assets and Liabilities	6
3.12 Fixed Assets	7
Motor Vehicles, Office Furniture and Equipment.....	7
3.13 Revenue Collection	7
3.14 Personnel Records/ Payroll.....	8
Defunct Municipal Council of Chuka	8
3.15 Handing Over of assets and liabilities to County Government.....	8
3.16 Current Assets and Liabilities	9
3.17 Fixed Assets.....	10
3.18 Revenue Collections	10
3.19 Personnel/Payroll Records	11

Defunct County Council of Meru South.....	11
3.20 Improper Handing Over to Transition Authority/County Government	11
3.21 Current Assets and Liabilities.....	11
3.22 Fixed Assets.....	13
3.23 Revenue Collection.....	13
3.24 Payroll	13
3.25 Other Audit Findings.....	14
Defunct County Council of Tharaka.....	14
3.26 Handing Over of assets and liabilities to County Government	14
3.27 Current Assets and Liabilities.....	14
3.28 Fixed Assets.....	16
3.29 Revenue Collection.....	16
3.30 Other Audit Findings	17
3.31 Conclusion	17
1.0 Introduction.....	19
2.0 Audit Objectives.....	19
Tharaka Nithi County Executive and County Assembly.....	19
3.0 Key Audit Findings.....	19
3.1 Improper Take Over of the Defunct Local Authorities.....	19
3.2 Current Assets and Liabilities	20
3.3 Fixed Assets.....	23
3.4 Revenue Collection	24
3.5 Procurement of Works, Goods and Services	24
3.6 Audit of IT Environment.....	25
1.1 IT Control Environment.....	25
1.1.1 Management of IT operations	26
1.1.2 IT Organization Structure.....	26
1.2 Hardware	26
1.2.1 Computers and Accessories	26
1.2.2 Data Centre.....	26
1.2.3 Network Connectivity	27

1.3	IFMIS and G-Pay.....	27
1.4	LAIFOMS.....	27
1.4.1	Weak Logical Controls	27
3.7	Personnel Records	27
3.8	Integrated Financial Management Information System (IFMIS).....	28
3.9	Other Audit Findings	29
	Former Town Council of Chogoria.....	32
3.10	Improper Handing Over to the County Government	32
3.11	Current Assets and Liabilities	32
3.12	Fixed Assets.....	35
3.13	Revenue Collection	35
3.14	Personnel Records/ Payroll	36
	Former Municipal Council of Chuka	37
3.15	Improper Handing Over to the County Government	37
3.16	Current Assets and Liabilities	37
3.17	Fixed Assets.....	40
3.18	Revenue Collection	41
3.19	Personnel/Payroll Records	42
	Former County Council of Meru South	43
3.20	Improper Handing Over to the County Government.....	43
3.21	Current Assets and Liabilities	43
3.22	Fixed Assets.....	45
3.23	Revenue Collection	46
3.24	Payroll.....	47
3.25	Other Audit Findings.....	48
	Former County Council of Tharaka	48
3.26	Improper Handing Over to the County Government	48
3.27	Current Assets and Liabilities	49
3.28	Fixed Assets	51
3.29	Revenue Collection	52
3.30	Other Audit Findings.....	53

3.31 Conclusion..... 55

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

EXECUTIVE SUMMARY

1.0 Introduction

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

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

2.0 Audit Objectives

The audit covered the County Executive, County Assembly, the former County Councils of Tharaka and Meru South, Municipal Council of Chuka and Chogoria Town Council transactions for the period 1st January to 30th June 2013 and therefore, taking 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
- ✓ Unsupported Expenditure
- ✓ Irregular Withdrawals of Funds
- ✓ Unutilized Funds
- ✓ Revenue Collection
- ✓ Current debtors and suppliers balances
- ✓ Motor vehicles and office equipment
- ✓ IPPD Payroll and establishment
- ✓ Recurrent and development expenditure items
- ✓ Procurement and procurement procedures
- ✓ ICT and G-Pay System

2.1 The audit teams faced several constraints during the audits, including delay in getting various documents and non-availability of key staff of the former Local Authorities. These constraints resulted in delay in concluding the audits within the planned timelines.

Tharaka Nithi County Executive and County Assembly

3.0 Key Audit Findings

3.1 Failure to take over the Defunct Local Authorities

The County Government of Tharaka Nithi had not officially taken over the assets and liabilities of the four former Councils as at the time of audit conclusion on 30 September 2013, contrary to instructions issued by the Ministry of Local Government vide Circular No. MLG/1333/TY/52 of 18 February, 2013. Arrangements should be made by Transition Authority to have assets and liabilities of the former Councils handed over to the County Government to enable it have confirmed balances to be reflected in its books of account.

3.1 Current Assets and Liabilities

(i) Cash and Bank Balances

(a) Non-Closure of Bank Accounts

The County Government had not closed bank accounts of all the four defunct Local Authorities that were operating before and after 28 February 2013. This was in total disregard of the County Governments Public Finance Management Transition Act, 2013 which required that the bank accounts be closed and reconciliations done within three months w.e.f 5 March 2013. Further, the County Government maintained one cashbook which was used to record transactions for both the Executive and the County Assembly, although these are distinct accounting units within the County. All accounts formerly operated by the defunct Councils should be closed and unutilized balances transferred to County Revenue account. Also, separate cashbooks should be opened and maintained for each unit to enhance proper accountability of funds allocated to them.

(b) Irregular Withdrawal of Funds

Tharaka Nithi Revenue Collection Account and bank statements indicated that between 5 and 11 June 2013, Kshs.10,000,000 was withdrawn from the account without the approval of the Controller of Budget, contrary to Section 207 (3) of the Constitution. The provisions of the Constitution should be followed whenever funds are to be withdrawn from the Revenue Collecting Account and purpose of such withdrawals confirmed.

(ii) Debtors

Debtors' balances as at 28 February and 30 June 2013 were Kshs.148,063,742 and Kshs.122,401,396 respectively. However, the County Government of Tharaka Nithi did not consolidate and validate its debtors especially those in respect to the four defunct Local Authorities. As a result, movement of the debtors during the transition period could not be ascertained. Appropriate systems for recording debtors should be developed to ensure accuracy and completeness of the records. Also, debt collection policy should be put in place to facilitate collection of County debts as and when they fall due.

(iii) Creditors

According to the statement of assets and liabilities as at 28 February 2013, the defunct local authorities had creditors totalling Kshs.24,686,763. As at 30 June 2013, creditors balance was Kshs.26,444,344. No records for the creditors were made available for audit review. The creditors should be promptly recorded in a ledger indicating particulars of each creditor and the same updated on a regular basis.

3.3 Fixed Assets

Vehicles, Furniture and Equipment

The four former Local Authorities had a total of twenty four (24) motor vehicles and office equipment valued at Kshs.9,736,146 and Kshs.730,418, respectively. No record was maintained by the County Government to show that the assets had been taken over from the Local Authorities. A system for proper recording of all County assets should be developed to ensure safe custody.

3.4 Revenue Collection

Examination of revenue records disclosed actual collection of Kshs.44,725,326 and banking totalling Kshs.38,754,748 resulting to under banking amounting to Kshs.5,970,578 as at 30 June 2013.

This implies apparent spending of revenue at source, contrary to financial regulations which require that revenue collected should be banked intact. No explanation was provided for this irregularity.

3.5 Procurement of Works, Goods and Services

(i) Irregular Payment of Transportation Costs

A total of Kshs.1,050,000 was spent by the County Government travel and subsistence allowances to officers while on official duties within or outside the County on diverse dates. However, the payments were not supported by relevant documents.

Further, the officers were paid transport/fuel costs in the range of Kshs.5,000 and Kshs.10,000 but without any basis. Under the circumstances, propriety of the expenditure could not be confirmed.

(ii) Irregular Procurement of Building Materials

The County Government incurred an expenditure of Kshs.5,729,740 on procurement of assorted building materials for the construction of Kathwana County Government Offices. The expenditure was not based on bills of quantities or any other documented specifications from the relevant Government technical department. It was therefore not clear how the prices and quantities of the building materials were determined.

Procurement of building materials should only be done on approved bills of quantities. Also, expenditure of any nature should be fully supported by relevant documents including approvals and evidence of receipt of goods or services as required by the Government Financial Regulations and Procedures.

3.6 Information Technology (IT) Control Environment

Assessment made on how the County Government of Tharaka Nithi has put in place structures to govern and manage its information systems revealed the following weaknesses amongst others:

- i) The County had been supplied with twenty (20) personal computers by the National Treasury to be solely used for IFMIS. However, a comprehensive ICT inventory for all ICT assets does not exist. The inventory seen was only for the new machines, while no inventory for the old ICT equipment was maintained.
- ii) The County has one (1) data center (Server Room) at the former Municipal Council of Chuka Offices. The room is not a restricted area and therefore easily accessible to unauthorized persons. The server is exposed to over-heating and there is no air-conditioning system to control the temperatures. Also, there are no fire extinguishers within reach.
- iii) Review of the event activity logs from LAIFOMs revealed that officers were sharing passwords, where a user had logged in two different modules in two different workstations at the same time. The sharing of passwords was confirmed by the officers.
- iv) It was also noted that the ICT manager is not the system administrator in LAIFOMS and therefore he was not in control of how access rights were being granted.
- v) Review of the user access rights revealed that users have been granted more than one user accounts with conflicting roles, which include access to both complement and payroll. This violates the principle of segregation of duties and the explanation for multiple access rights was that officers were given so as to enable them edit employees' details. This action is subject to abuse and may lead to alteration of data for the benefit of the officers.

The management should develop and approve key ICT systems, documents, procedures, and controls that will ensure proper management of IT operations within the County. Also, ICT department, as a strategic resource, should be adequately staffed and roles clearly defined for efficient and effective management of IT operations at the County.

3.7 Personnel Records

No staff handing over was done between the former Councils and County Government, contrary to requirements by the County Governments Transition Authority Act, 2012. Further, no staff validation and head count was carried out to confirm credibility of the staff and magnitude of wage bill being taken over from the defunct Councils. Critical job evaluation, skills assessments and head count should be done, if not yet done to facilitate deployment of key staff to relevant departments, and also identify skill gaps for future recruitment.

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

As at the time of conclusion of the audit on 30 September 2013, the IFMIS installed at the County was not operational due to lack of connectivity to the internet. All payments were being processed manually by use of cheques, a system the Government intended to abolish by adopting IFMIS and G-Pay system. Immediate action should be taken to address connectivity problem at the County to enable use of the two systems which were intended to improve financial management.

3.9 Other Audit Findings

i. Unsupported Expenditure

Between the months of March to June 2013, expenditure totalling Kshs.18,669,820 was incurred on travelling expenses, allowances and procurement of goods and services. The expenditure was however not supported by relevant documents. Consequently, it was not possible to confirm that the expenditure was a proper charge to public funds.

Defunct Town Council of Chogoria

3.10 Improper Handing Over to Transition Authority/County Government

There was no proper handing over of the former Town Council of Chogoria assets and liabilities to the County Government as required by the Ministry of Local Government Circular No. MLG/1333/TY/52 of 18 February, 2013. As a result, the County Government had no records of assets and liabilities owned by the former Town Council, as well as other outstanding debts. The Transition Authority should

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

3.11 Current Assets and Liabilities

(i) Cash & Bank Balances

(a) Non-Closure of Bank Accounts

The former Town Council of Chogoria operated six bank accounts in two different commercial banks. However, as at the time of audit on 27 August 2013, all the accounts had not been closed. This was contrary to the County Government Public Finance Management Transition Act, 2013 which required that accounts of defunct local authorities be closed on 5 March 2013, or upon expiry of three months at the end of May 2013, to finalize reconciliations, considering that the Council was dissolved on 28 February 2013.

(b) Poor Maintenance of Cash Books

The former Town Council maintained a receipts and a payments cash book for the General Rate Fund (GRF) and Local Authority Transfer Fund (LATF) accounts. However, no main cash book was maintained for recording both the receipts and payments in respect to these accounts. It was therefore not possible to establish cash book balances at any one time due to lack of double entry. Further, no cashbooks were maintained for the other four bank accounts. It could not be confirmed how transactions in respect to these accounts were being managed by the Council. Cash books should be maintained for all bank accounts as required by Government Financial Regulations and procedures.

(c) Non-Preparation of Monthly Bank Reconciliation Statements

The Council did not prepare monthly bank reconciliation statements as required by the financial regulations. Lack of monthly bank reconciliations may lead to fraudulent activities not being detected in good time leading to loss of funds. Bank reconciliation statements should be prepared on monthly basis, and accuracy and completeness of the same confirmed by a senior official.

(d) Failure to Conduct Cash Board of Survey

There was no cash board of survey carried out in respect of balances as at 28 February and 30 June 2013. The cash survey on cash and bank balances as at 28 February 2013 would have provided the correct balances for the County Government. Cash board of surveys should be conducted in respect to all cash books at the closure of every financial year to ensure accuracy of the balances.

(ii) Debtors/Receivables

Debtors reported in the statement of assets and liabilities as at 28 February 2013 totaled Kshs.26,363,828. Analysis of the debtors was not provided for ease of identification and confirmation of correctness of the balance. A schedule of outstanding plot rents totalling Kshs.1,062,252 provided revealed that the figure had been excluded from the reported debtors balance as at 28 February 2013. Consequently, the correct debtors balance as at 30 June 2013 could not be confirmed. Proper debtors' records should be maintained and updated regularly to reflect correct balances at any given time. A debt collection policy should also be put in place to ensure that debts are collected as and when they fall due.

(iii) Current Creditors/Payables

As at 28 February 2013, the Council recorded outstanding creditors of Kshs.3,879,628 but which was not supported by invoices or demand notes from the suppliers. Creditor's ledger maintained was not updated and it was therefore not possible to confirm accuracy of the balances as at 28February and 30 June 2013. Creditors' ledger should be updated on regular basis to reflect the correct balances. The creditors should be validated to avoid payment of fictitious suppliers and ghost employees in future.

3.12 Fixed Assets

Motor Vehicles, Office Furniture and Equipment

The statement of assets and liabilities as at 28 February, 2013 reflected furniture, fittings and equipment of Kshs.418,481. The assets figure excluded Kshs.153,346 for a motor vehicle KUL 933. Physical verification of office furniture and equipment revealed that the number of chairs increased from thirty (30) to forty nine (49) while that of tables decreased from twenty two (22) to twenty (20) compared with figures reflected on the statement of assets and liabilities. It was explained that the additional nineteen (19) chairs were received from the Ministry of Local Government headquarters-Nairobi, on unspecified date. In the absence of supporting documentation, correctness of the information and accuracy of assets balance could not be confirmed. A proper system for recording the County's fixed assets should be put in place and updated regularly to avoid losses in future.

3.13 Revenue Collection

(i) Under-Banking of Revenue

During the period 1 January to 10 May 2013, total revenue collected and recorded in LAIFOMS amounted to Kshs.4,104,915. Bank statements for the respective accounts revealed banking totalling Kshs.3,748,893, resulting to unexplained under banking of Kshs.356,021. Proper reconciliations should be done between bank records and

LAIFORMS to establish the correct position of revenue not banked and to avoid loss of revenue in future. All revenue collected should be banked intact.

(ii) Under-Collection of Revenue

Comparison made between total revenue collected in the period January to June 2013 and the same period in 2012 revealed that revenue collected in 2012 was Kshs.8,161,963 against a total of Kshs.4,990,618 for 2013, leading to a variance of Kshs.3,171,345 or a reduction of 38.86%. No information was availed by management as to the causes of the under collections. However, analysis of revenue records revealed that the under collection may be attributed to non-issuance of business permits, non-collection of parking fees, and non-collection of barter market revenue. Appropriate measures should be taken to ensure that all revenue due to the County is collected and promptly banked.

3.14 Personnel Records/ Payroll

The former Council had twenty three (23) permanent employees as at 1 January 2013. Two new employees were introduced in the March 2013 payroll and it was explained that one of the officers was a senior drafts man who had been transferred to the station and the other one was a newly recruited driver. However, the recruitment of the driver was not supported by minutes approving the recruitment, the advertisement for the position, and any interview results made.

Further, the staff was not officially handed over by the Council's management to County Government, and no validations of employment documents or head count seem to have been done. The County Government should conduct an audit of the personnel inherited from the Council and conduct job evaluation to ascertain the optimum staff and skills requirements for efficient operations in future.

Defunct Municipal Council of Chuka

3.15 Handing Over of assets and liabilities to County Government

There was no proper handing over of the former Municipal Council of Chuka's assets and liabilities to the County Government as required by the Ministry of Local Government Circular No. MLG/1333/TY/52 of 18 February, 2013. As result, the County Government has no records of assets and liabilities owned by the former Municipal Council, as well as other outstanding debts and staff. The Transition Authority should arrange for proper handing over of assets, liabilities and staff of the former County Council to enable the County Government have a basis of opening balances to be reflected in its books of account.

3.16 Current Assets and Liabilities

(i) Cash and Bank Balances

(a) Non-Closure of Bank Accounts

The former Municipal Council of Chuka operated seven (7) bank accounts at various commercial banks. All the accounts were supposed to be closed upon the take over of the Council by the County Government. As at 28 February 2013, the bank accounts had a balance of Kshs.8,423,187. However, as at the time of audit on 20 August 2013, the accounts had not been closed. This was contrary to the County Government Public Finance Management Transition Act, 2013 which required that accounts of defunct local authorities be closed on 5 March 2013 or upon expiry of three months at the end of the month of May 2013 to finalize reconciliations, considering that the Council was dissolved on 28 February, 2013.

(b) Non-Preparation of Monthly Bank Reconciliation Statements

The Council did not prepare monthly bank reconciliation statements as required by financial regulations and procedures. No explanation was given as to why the reconciliation statements were not being prepared. Bank reconciliation statements should be prepared on monthly basis and accuracy of the same confirmed by a senior official.

(b) Failure to Conduct Cash Board of Survey

There was no cash board of survey that was carried out in the period 2012/2013 including 28 February and 30 June 2013. The cash survey in respect to balances as at 28 February, 2013 would have provided the correct position of cash and bank balances for the County Government. The County Government should ensure that cash board of survey is conducted at the closure of every financial year to confirm accuracy of cash book balances.

(d) Cheques not posted in the Cash Book

The former Council had not posted cheques totalling Kshs.5,223,351 in the cash book although they had been presented to the bank. The payment's cash book was therefore not up dated and hence not reflecting the correct position of the Council cash position. All transactions should be posted to the cash book on daily basis and accuracy and completeness of the cashbook balances confirmed on a daily basis by a senior official.

(ii) Debtors/Receivables

Debtors balance reduced from Kshs.8,958,586 as at 28 February to Kshs.8,732,278 as at 30 June 2013. The balances are composed of property rates and house and stalls rent of Kshs.8,503,328 and Kshs.228,950 respectively. However, the Council

did not maintain debtors' ledger and no plot rent registers were made available for audit review. A debtors' ledger should be maintained and updated on regular basis to ensure accuracy and completeness of the records.

(iii) Creditors

According to the statement of assets and liabilities as at 28 February 2013, the defunct local authority had creditors totalling Kshs.9,336,388 which did not change as at 30 June 2013. However, creditor's ledger was not updated and no validation of the creditors was done. Creditors should be promptly recorded in a ledger indicating particulars of each creditor and the same updated on a regular basis. The creditors inherited from the former Council should be validated through circularization to ascertain their authenticity.

3.17 Fixed Assets

Motor Vehicles and Office Equipment

The statement of assets and liabilities as at 15 March indicated that the Council had eleven motor vehicles although assets register reflected only nine motor vehicles. One motor vehicle registration number G.K A 336 U and a trailer no. ZB 6492 were not recorded in the assets register. Further, the logbook for ZB 6492 open farm trailer was not made available for verification and confirmation of ownership. Further, plant and equipment, furniture and fittings and computers were reflected with balances of Kshs.162,250, Kshs.186,109 and Kshs.1,050,500 respectively. However, no evidence of valuation of the assets was made available for confirmation of validity of the values. Fixed assets register should be maintained and updated regularly to ensure safe custody of the assets and accuracy of the balances.

3.18 Revenue Collections

(i) Under-banking of Revenue

Revenue collected by the defunct Municipal Council of Chuka was banked mainly in the General Rate Fund (GRF) Account held at Kenya Commercial Bank. During the period 1 March to 30 May 2013 total revenues collected and recorded in LAIFOMS amounted to Kshs.2,018,836. However, a review of the bank statements of the respective accounts revealed that only Kshs.1,614,966 was banked, resulting to unexplained under banking of Kshs.403,870. Proper reconciliations should be done between bank records and LAIFORMS to establish the correct position of revenue not banked. Also, measures should be put in place to ensure prompt collection and recording of County revenue.

3.19 Personnel/Payroll Records

The former Municipal Council paid salary arrears totalling Kshs.3,819,650 on 30 April 2013, covering five months from September 2012 to January 2013. The payment was made from Local Authorities Transfer Funds (LATF) account although the expenditure was not provided for in the LATF budget for 2012/2013. All personal emoluments should only be paid from the budgeted amounts or necessary authority sought for reallocation of funds.

Defunct County Council of Meru South

3.20 Improper Handing Over to Transition Authority/County Government

There was no proper handing over of the former County Council of Meru South assets and liabilities to the County Government as required by the Ministry of Local Government Circular No. MLG/1333/TY/52 of 18 February, 2013. As a result, the County Government had no records of assets and liabilities owned by the former County Council, as well as other outstanding debts. The Transition Authority should arrange for proper handing over of assets, liabilities and staff of the former County Council to the County Government to enable the County Government have a basis of opening balances to be reflected in its books of account.

3.21 Current Assets and Liabilities

(i) Cash and Bank Balances

(a) Non-Closure of Bank Accounts

The County Council of Meru South operated five (5) bank accounts at various commercial banks. All the accounts were supposed to have been closed upon the takeover of the Council by the County Government in March 2013, or not later than end of May, 2013 to allow for reconciliation of accounts. As at 28 February 2013 the accounts had a balance of Kshs.11,567,047 and as at 30 June 2013, the balance was Kshs.351,164. However, as at the time of audit in September 2013 none of the bank accounts had been closed. This was contrary to the County Government Public Finance Management Transition Act, 2013 which required that accounts of defunct local authorities be closed on 5th March 2013 or upon expiry of three months at the end of the month of May 2013 to finalize reconciliations, considering that the Council was dissolved on 28 February 2013.

The former Town Council maintained a receipts cash book and a payments cash book separately for the GRF and LATF accounts. Further, there were no cashbooks maintained for all the other accounts. The County Government should ensure that cashbooks are opened for all the bank accounts maintained to enhance accountability of County funds.

(b) Non-Preparation of Monthly Bank Reconciliation Statements

The Council did not prepare monthly bank reconciliation statements for the cash books maintained, contrary to requirements of the financial regulations. No explanation was given as to why the reconciliation statements were not being prepared. Bank reconciliation statements should be prepared on monthly basis to enable early detection of errors of omission and commission.

(c) Failure to conduct Cash Board of Survey

There was no cash board of survey carried out to confirm cash and bank balances as at 28 February and 30 June 2013. The cash survey as at 28 February 2013 would have confirmed cash and bank balances to be reflected by the County Government in its records. The County Government should ensure that cash board of survey is conducted at the closure of the financial year for confirmation of accuracy of the closing balances.

(d) Overdrawn Bank Account

The Council overdraw its GRF bank account maintained at Equity bank by Kshs.3,505,647 on 31 May, 2013 as evidenced by the respective bank statement. Although it was explained that the overdraft was for payment of staff salaries, no appropriate authority was sought before the bank account was overdrawn. Over drawing of bank account should only be done with appropriate approval.

(ii) Debtors

The list of debtors as at 28 February 2013 made available for audit disclosed outstanding balance of Kshs.85,411,151 comprised of plot rent and contribution in lieu of rates Kshs.6,691,684 of and Kshs.78,719,467 respectively. As at 30 June, 2013 the balance increased to Kshs.101,498,543 which includes Kshs.11,462,077 and Kshs.90,036,467 for plot rent and CILOR respectively. However, no debtors' ledger was maintained and therefore the correct debtors' position could not be ascertained. Appropriate systems for recording debtors by the County Government should be developed to ensure accuracy of records. Also, a debt collection policy should be put in place to facilitate collection of County debts as and when they fall due.

(iii) Current Creditors

According to the statement of assets and liabilities as at 28 Feb 2013, the creditors totalled to Kshs.11,129,689 and the position remained the same as at 30 June 2013. However, no ledger was maintained making it impossible to confirm the accuracy of creditors' balances as at 28 February and 30 June 2013. A creditors' ledger should be maintained and updated regularly to ensure accuracy of the records.

3.22 Fixed Assets

Motor Vehicles and Office Furniture and Equipment

The motor vehicles and office furniture and equipment as at 28 February 2013 was Kshs.2,970,000 and 741,716 respectively. However, physical verification confirmed existence of six (6) Council vehicles but whose log books were explained got lost under unclear circumstances. The Council provided copies of police abstract forms which were secured after the loss of the log books. However, no efforts appear to have been made to obtain duplicate copies of the log books from Kenya Revenue Authority. Also, the Council had no fixed assets register. The County Government should obtain ownership documents for the motor vehicles and ensure a fixed assets register is maintained.

3.23 Revenue Collection

The defunct County Council banked revenue totalling to Kshs.8,247,371 out of revenue collected up to 19 April, 2013 of Kshs.8,789,733 in Equity bank account. There after the revenue was banked in the County Revenue Account held at the same bank. This was despite the fact that the revenue account was supposed to have been operationalized immediately after the results of the 4 March 2013 general election. The requirements of the County Governments Public finance Management Act should be adhered to at all times.

Under-banking of Revenue

A comparison of revenue collections for the period 1 January to 19 April 2013 showed total collection of Kshs.8,789,733 against total banking of Kshs.8,247,371 and therefore, an under banking of Kshs.542,362. This amount was not supported by any cash or cash equivalents. The under banking should be investigated and proper control mechanism put in place to ensure prompt accounting of all revenue collections.

3.24 Payroll

(i) Irregular Payment of Salaries

Perusal of the County Council's payroll revealed the gross pay for the month of March 2013 totaled Kshs.3,097,456. However, a payment vouchers no. 1 of 3 April 2013 which was paying Equity bank reflected total of Kshs.3,528,334 as staff net pay plus all statutory and other deductions. This indicates that amount paid vide cheque no. 002136 was higher than the payroll gross figure by Kshs.430,878, This difference was not explained. The amount in question should be investigated and necessary recoveries effected in respect to any overpayments made to staff.

3.25 Other Audit Findings

Unsupported Expenditure

Examination of expenditure records for the period under review disclosed that the Council incurred an expenditure totalling Kshs.2,510,436 which had no supporting documents. The expenditure was in respect of repair of motor vehicles, salary to casuals, allowances to County officials and accommodation allowances while on transfer. In the absence of supporting documents, it was not possible to confirm that the expenditure was a proper charge to public funds. All payments should be fully supported before necessary approvals are given.

Defunct County Council of Tharaka

3.26 Handing Over of assets and liabilities to County Government

There was no proper handing over of the former County Council of Tharaka assets and liabilities to the County Government as required by the Ministry of Local Government Circular No. MLG/1333/TY/52 of 18 February, 2013. As result, the County Government had no records of assets and liabilities owned by the former Tharaka County Council, as well as other outstanding debts. The Transition Authority should arrange for proper handing over of assets, liabilities and staff of the former County Council to enable the County Government have a basis of opening balances to be reflected in its books of account.

3.27 Current Assets and Liabilities

(i) Cash & Bank Balances

(a) Non-Closure of Bank Accounts

The County Council of Tharaka operated six (6) bank accounts at various commercial banks. All the accounts were supposed to have been closed upon the takeover of the Council by the County Government in March 2013. As at 28 February 2013, the accounts had a total balance of Kshs.14,626,308 and as at 30 June 2013 the balance had reduced to Kshs.185,893. However, as at the time of audit on 16 September 2013, none of the accounts had been closed. This was contrary to the County Governments Public Finance Management Transition Act, 2013 which required that accounts of defunct local authorities be closed on 5th March 2013 or upon expiry of three months at the end of the month of May 2013 to finalize reconciliations, considering that the Council was dissolved on 28 February 2013.

(b) Non-Preparation of Monthly Bank Reconciliation Statements

The Council did not prepare monthly bank reconciliation statements as required by financial regulations. No explanation was given as to why the reconciliation

statements were not being prepared. Bank reconciliation statements for all cash books should be prepared at the end of every month to enable early detection and correction of any errors.

(c) Failure to conduct Cash Board of Survey

No cash board of survey was carried out by the Council in the period 2012/2013 including 28 February and 30 June 2013. The survey on balances as at 28 February 2013 would have provided the cash and bank positions on the date the Council was supposed to have closed its final accounts in readiness for takeover by the County Government. The County Government should ensure that cash board of survey is conducted at the close of every year to ascertain accuracy of cash book balances.

(d) Cheques not Posted in the Cashbook

The former Council had not posted cheques totalling Kshs.3,727,752 in the LATF cash book although they had been presented to the bank. The payments cash book was therefore not up dated and hence not reflecting the correct position of cash and bank balances. All transactions should be posted to the cash book on daily basis to avoid overdrawing the cash book and to enhance good financial practice.

(e) Un-presented Cheques

Cheques totalling Kshs.5,209,327 relating to the GRF account had not been presented to the bank for payment as at the time of audit in September, 2013. All the cheques became stale after six months validity period for presentation to the bank expired and they had not been replaced. Also, GRF account had bank balance of Kshs.76,255 as at 30 June 2013 which would not have been sufficient to clear the un presented cheques. Effectively, the cash book could have been overdrawn by Kshs.5,133,072 were the cheques to be presented for payment. The entries should be reversed in the cash book and payments made based on availability of funds.

(ii) Debtors/Receivables

According to the list of debtors made available for audit, total debtors as at 28 February 2013 was Kshs.11,242,785 and this figure remained unchanged as at 30 June 2013. However, the figure did not include contribution in lieu of rates of Kshs.2,619,086 reported in the financial statements for the year ended 30 June 2012. Also, no debtors' ledger was maintained and therefore it was not possible to confirm debtors' position as at 28 February and 30 June 2013. A debtors' ledger should be maintained and debt collection policy be put in place to facilitate collection of debts as and when they fall due.

(iv) Creditors

The statement of assets and liabilities as at 28 February 2013 did not reflect any creditors and no ledger was maintained by the former Council to enable confirmation

of the correct position. As at 30 June 2013 creditors' balance amounted to Kshs.1,757,611 and related to NSSF, LAPTRUST and salary arrears.

The County Government should ensure that creditors' ledger is maintained and updated on regular basis.

3.28 Fixed Assets

(i) Motor Vehicles

The former Council owned a fleet of five motor vehicles and two motor cycles but a log book for one motor cycle KAT 096X was reported to have gotten lost and the matter reported to the police as evidenced by a police abstract obtained on 23 December 2009. Log books for the five motor vehicles and one motor cycle were produced for audit. However, it was not clear why the log book had not been replaced as at the time of audit in September, 2013. Further, only one motor vehicle was in working condition. Also, the fixed assets register maintained by the Council was not up dated. An up dated fixed assets register should be maintained and missing ownership document for the motor cycle obtained.

(ii) Office Equipment and Furniture

Physical verification of office equipment and furniture revealed that chairs disclosed in the statement of assets and liabilities were less by twenty, printers were more by one, while one lap top, a network server and machine were not included in the statement of assets. These discrepancies were not reconciled or explained.

(iii) Non-valuation of Assets

The Council had not valued its assets as no evidence to that effect was made available for audit review. It was therefore not possible to confirm the fair value of the assets as at 28 February and 30 June, 2013.

3.29 Revenue Collection

Under-banking of Revenue

A comparison of revenue collections for the period 1 January to 30 June 2013 as recorded in the cashbook revealed total collections of Kshs.15,213,642 against total banking of Kshs.10,545,317 and therefore under banking of Kshs.4,668,325. The amount was not supported by any cash or cash equivalents and it was not possible to confirm how it was accounted for. The under banking should be investigated and appropriate systems put in place to ensure proper accounting of the County's revenue collections.

3.30 Other Audit Findings

i) Doubtful Expenditure on Consultancies

A company was paid Kshs.495,500 on 27 February, 2013 in respect of installation of LAIFORMS and training of staff on the same. However, the LAIFORMS allegedly installed was not functional and all the modules could not open. Further, officers alleged to have been trained on LAIFORMS were not at the station because they had been transferred from the station. With a non-functioning system and the missing officers, it was not possible to confirm that expenditure of Kshs.495,500 was incurred on services rendered to the Council. There is need of ensuring that value for money is realized for all public funds spent by the County Government.

ii) Doubtful Expenditure on Motor Vehicle Repairs

A motor garage was paid Kshs.447,625 on 26 February 2013 in respect of carrying out repairs to motor vehicle registration number KAE741S. Audit verification revealed that the vehicle was still in the garage as at the time of audit on 12 September 2013, thus casting doubts on its repairs. Also, no explanation was given for effecting the payment before services were rendered, contrary to requirements of financial regulations and procedures. Payments should only be made for services rendered.

iii) Unsupported Expenditure

An amount of Kshs.435,000 was paid to a consultancy firm on 26 February 2013 for training Councilors between 8 and 10 January 2013. Audit verification revealed that the list of the trainees was not availed to support the expenditure. It was therefore not possible to confirm the number of Councilors who attended the workshop. All future expenditures should be supported with the relevant documentation.

iv) Expenditure on General Rate Fund (GRF)

Examination of expenditure records disclosed that expenditure totaling to Kshs.418,250 was paid out of GRF account on diverse dates between February and June, 2013. The amount related to travelling, subsistence, conference and food expenses but no supporting invoices, LPOs, delivery notes or workshops invitation letters were produced for audit review. Consequently, it was not possible to confirm propriety of the expenditure. All payments must be initiated by the relevant Head of Department in liaison with the County Treasury and must be fully supported by documentary evidence.

3.31 Conclusion

The foregoing observations clearly indicate that the process of taking over of assets and liabilities, including staff of the former Councils was not properly handled 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 PFMA, 2012. All expenditure should be incurred in accordance with the requirements of the Public Finance Management Act, 2012 and for the benefit of the tax payers.

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

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

Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

26 February 2014

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

1.0 Introduction

The objective of the special audit was to verify and confirm existence of a seamless transition process as well as Tharaka Nithi County Government's preparedness to receive and efficiently and effectively utilize the devolved funds before, during and after the transition period. The following are the detailed audit findings and recommendations:-

2.0 Audit Objectives

The audit covered the County Executive, County Assembly, the former County Councils of Tharaka and Meru South, Municipal Council of Chuka and Chogoria Town Council transactions for the period 1 January to 30 June 2013 and therefore, taking 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
- ✓ Unsupported Expenditure
- ✓ Irregular Withdrawals of Funds
- ✓ Unutilized Funds
- ✓ Revenue Collection
- ✓ 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

Tharaka Nithi County Executive and County Assembly

3.0 Key Audit Findings

3.1 Improper Take Over of the Defunct Local Authorities

It was observed that the interim Tharaka Nithi County management team did not institute a proper takeover of the assets, liabilities and personnel of the defunct four local authorities namely; Municipal Council of Chuka, County Council of Tharaka, County Council of Meru South and Town Council of Chogoria. Although the defunct

local authorities prepared statements of assets and liabilities as at 28 February 2013, these statements were not verified and subsequently endorsed by the County Secretary in his or her capacity as the Accounting Officer. This is because the interim management instituted inter sub-county staff transfers, especially in respect to the former Clerks who were the chief custodians of assets and liabilities of the former local authorities. The interim management did not allow the chief officers to do a formal handing over of assets and liabilities of the respective Councils. Further, the statements of assets and liabilities submitted by the former local authorities did not set out a debt management strategy as required by the then Ministry of Local Government Circular MLG/1333/TY/52 of 18 February 2013. It was therefore not possible to confirm accuracy assets, liabilities and other related items inherited by the County Government from the defunct local authorities.

The County Government should ensure that proper handing over is done to ascertain the assets, liabilities, staff and other related items which should be properly recorded in its books of account.

3.2 Current Assets and Liabilities

(i) Cash and Bank Balances

(a) Non-Closure of Bank Accounts

The County Government had not closed bank accounts of all the four defunct local authorities that were operating before and after 28 February 2013. The Transition Principal Officer did not provide proof that authority for extension of the closure period was sought and obtained as was required by the Transition Act.

(b) Poor Maintenance of Cash Books

Audit verifications revealed that the County Government maintained one cash book in which all transactions relating to Tharaka Nithi County imprest account were made. However, the cash book was not balanced on daily basis to ascertain accuracy of balances. The cash book was also not being examined on a regular basis to confirm accuracy of entries made and closing balances. It was therefore not possible to establish accuracy of cash book balances at any one time.

(c) Accuracy of bank reconciliation statements for Imprest account

Audit of bank reconciliation statement for the imprest account as at 30 June, 2013 revealed that un-presented cheques totalling Kshs.9,669,758 drawn before 30 June 2013 were included in the cheques counterfoil but not shown in the list of un-presented cheques supporting the reconciliation statement. Accuracy of the reconciliation statement could not be confirmed.

(d) Failure to conduct Cash board of survey

The accounting officer did not arrange for a board of survey to examine and verify cash on hand and bank balances at the close of business on 30 June 2013 as required by the Government Financial Regulations and Procedures. This omission was not explained.

(e) Irregular Withdrawal of Funds

Examination of the County Revenue Collection Account bank statements revealed that Kshs.3,864,060 was transferred to the former Meru South County Council account maintained at Equity Bank on 5 June 2013, while Kshs.6,135,940 was transferred to County Imprest Account maintained at Co-operative Bank on 11 June 2013. A request sent to the Controller of Budget and approval obtained for the withdrawal of funds totaling to Kshs.10,000,000 from the County Revenue Account was not availed for audit confirmation. Amount of Kshs.10,000,000 was therefore withdrawn from the revenue account, contrary to provisions of the Public Finance Management Act, 2012.

(f) Irregular Issuance of Imprests

It was observed that imprests at the County Treasury were issued through the cashbook as opposed to through an imprest register as required by Government Financial Regulations and Procedures Section. Consequently, it was noted that several payments in the cashbook were not supported by the relevant expenditure documents. Further, imprest warrants used were computer generated and had no serial numbers, therefore implying serious control weaknesses and is also contrary to the prescribed imprest warrants Form F.O. 24, as per the Government Financial Regulations and Procedures Section 5.6.4(d). Issuance of imprests in this manner may result to loss of public funds due to lack of a system that captures imprests issued, surrendered and those outstanding as at a particular date.

(g) Cheques not posted to the Cash Book

Examination of cash books as at 30 June 2013 disclosed that cheques amounting to Kshs.8,951,103 had not been posted in the cash books of defunct local authorities of Municipal Council of Chuka (Kshs.5,223,351) and County Council of Tharaka (Kshs.3,727,752). This was an indication of poor maintenance of the cash books and may lead to loss of funds.

(h) Un-presented Cheques

Audit verification revealed that cheques amounting to Kshs.9,122,710 drawn by three defunct local authorities as evidenced by cheque counterfoils had not been presented to the bank for payment as at 30 June 2013. Most of the cheques related to the year 2011/2012 and were therefore stale. The cheques were in respect to the following Councils:-

Particulars	Amount
Municipal Council of Chuka	895,985
County Council of Tharaka	5,292,423
Town Council of Chogoria	<u>2,934,302</u>
Total	<u>9,122,710</u>

Some of these cheques were physically verified while some had been collected.

It was however not explained why stale cheques had not been reversed in the cashbook.

Further, examination of bank statements disclosed that total cash at bank for the three former Councils as at 30 June 2013 was Kshs.1,537,377, an amount not sufficient to clear all the cheques if presented for payment. The County Government should ensure that all the bank accounts held by the former local authorities are closed and unspent balances transferred to County Revenue account, develop an imprest management system for proper control of imprest, prepared bank reconciliation statements on a monthly basis and accuracy of the same confirmed by a senior official, the cash books are balanced and checked by a senior official regularly, if not daily, and Action should be taken to clear the un-presented cheques from the books by reversing all stale cheques in the cash books.

(ii) Current Debtors

During the period ended 30 June 2013, the County Government of TharakaNithi did not validate or consolidate its debtors especially the debtors of the four defunct local authorities. The debtors' balances for the period ending 28 February and 30 June 2013 were as shown below:-

Amount (Kshs)	Amount (Kshs)	
Defunct Local Authority	28/02/2013	30/06/2013
Chogoria	26,363,828	927,790
Meru South	-	101,498,544
Tharaka	-	11,242,785
Chuka Municipal	<u>8,958,586</u>	<u>8,732,278</u>
Total	<u>35,322,414</u>	<u>122,401,397</u>

The County Government did not operate debtors' ledger to facilitate consolidation of the debtors inherited from the defunct local authorities. It was not possible to confirm the correct position of debtors as at 30 June 2013. Proper systems for recording debtors should be put in place to ensure accuracy and completeness of the records. The County Government should develop a debt collection policy to enhance revenue collection.

(v) Current Creditors

The County Treasury did not open a creditor's ledger to record details of payables in respect to the defunct local authorities immediately upon the establishment of the County Government. It was also observed that none of the defunct local authorities was maintaining a creditor's ledger, making it difficult to confirm the correct balances as at 28 February and 30 June 2013. On enquiry, the audit team was informed that the County Government had no outstanding creditors as at 30 June 2013. However, it was not possible to confirm this position in the absence of a creditor's ledger. Details of creditors reflected in the defunct local authorities records were as follows:-

Defunct Local Authority	Balance	Balance
	28/02/2013	30/06/2013
	Amount (Kshs)	Amount (Kshs)
Tharaka	-	1,757,581
Meru South	11,129,689	-
Chogoria	3,879,628	-
Chuka Municipal	<u>9,677,446</u>	<u>9,677,446</u>
TOTALS	<u>24,686,763</u>	<u>11,435,027</u>

The County Government should ensure that Creditors inherited from defunct local authorities are consolidated so as to give the correct position of amounts payable, Creditors ledger maintained, and all creditors should be verified before any payment is made.

3.3 Fixed Assets

Motor Vehicles, Furniture and Equipment

Although the Local Authorities in Tharaka Nithi County prepared statements of assets and liabilities as at 28 February 2013, there was no proper taking over of the 24 motor vehicles and office equipment worth Kshs.9,736,146 and Kshs.730,418 respectively by the County Government since contents of the statements were never confirmed and subsequently endorsed as correct records.

A master assets register incorporating all the motor vehicles and office equipment was not prepared that would reflect all the assets owned by the four defunct local authorities. It was not possible to confirm the value of the assets owned by the said entities as the statements of assets and liabilities dated 28 February 2013 did not indicate value of the assets. Instead, only a list of motor vehicles, furniture and equipment was prepared. The County Government should ensure that a master

Fixed Assets Register is maintained. The register should clearly indicate the location of all assets and their values. Safe custody of the assets should also be ensured.

3.4 Revenue Collection

Examination of revenue records disclosed total under banking of revenue totalling Kshs.5,970,578 as at 30 June 2013 arrived at as follows:-

Council	Actual Collection (Kshs)	Amount Banked (Kshs)	Variance (Kshs)
Chogoria	4,990,618	4,634,597	356,021
Chuka	12,774,737	12,370,867	403,870
Meru South	11,746,329	11,203,967	542,362
Tharaka	<u>15,213,642</u>	<u>10,545,317</u>	<u>4,668,325</u>
Total	<u>44,725,326</u>	<u>38,754,748</u>	<u>5,970,578</u>

This implies apparent spending of revenue at source, contrary to financial regulations which require that revenue collected be banked intact.

Further, there was apparent non collection of revenue of about Kshs.8,560,747 during the period January to June 2013 as shown below:-

Council	Actual Collection		Variance
	2012	2013	
Chogoria	8,161,963	4,990,618	3,171,345
Meru South	<u>11,135,731</u>	<u>11,746,329</u>	<u>5,389,402</u>
Total	<u>19,297,694</u>	<u>16,736,947</u>	<u>8,560,747</u>

The significant under collection was mainly attributed to non-issuance of single business permits, barter market and parking fees at the Councils.

The County Government should ensure that the under banking is investigated and appropriate action taken against those found to have misappropriated the revenue and proper systems for collection and accounting for revenue should be developed to enhance the County's revenue.

3.5 Procurement of Works, Goods and Services

(i) Irregular Payments of Transport Costs

A total of Kshs.1,050,000 was spent by the County Government in payment of travel and subsistence allowances to officers on diverse dates while on official duties within or outside the County on official duties. However, audit verification revealed that the claims were not supported by relevant documents such as vehicle work tickets, bus tickets, invitation letters, back to office reports etc to support the expenditures.

Further, officers were being paid transport/ fuel costs in the range of Kshs.5,000 and Kshs.10,000. It was however not clear how the rates were determined. In addition, the amounts paid were directly expensed as they were not being accounted for by expenditure receipts when the officers returned to duty station. This is contrary to financial regulations and procedures which require that such payments be issued as imprest which is subsequently accounted for by the officers.

The County Government should ensure that public funds are properly accounted for by observing the financial regulations and procedures.

(ii) Irregular Procurement of Building Materials

Examination of payment vouchers revealed the following anomalies;

- i). The County Government paid an amount of Kshs.160,000 to a private merchant for drawings and designs for the proposed County Government Offices and Assembly Hall. There was no evidence adduced to show why the services were sourced from a private merchant instead of the works department formerly under the defunct local authorities as required by regulations. There was also no evidence of competitive bidding for the provision of this service. The purported designs and drawings from the private merchant were not availed for audit verification and therefore, the expenditure incurred was not fully supported. In spite of lack of these drawings, the County Government went ahead and began construction of the offices at Kathwana.
- ii). The County Government incurred expenditure totaling Kshs.5,729,740 for the purchase of assorted materials for the construction of Kathwana County Government Offices. The materials were bought from different suppliers competitively sourced through quotations. The expenditure was not based on a bill of quantities or other documented specification from the works department, which would be based on the structural designs and drawings prepared during the preliminary stages of planning for the works. A physical verification revealed that semi-permanent offices had been done through labour based and were ready for occupation. However, in the absence of bills of quantities or any other specifications upon which purchase of the materials was based, it has not been possible to confirm that value for money was realized on this expenditure.

Recommendation

The County Government should ensure strict adherence to the Public Procurement and Disposal Act, 2005 and related 2006 regulations to ensure that value for money is realized for any expenditure incurred.

3.6 Audit of IT Environment

1.1 IT Control Environment

Assessment of how the County has put in place structures to govern and manage the information systems in place revealed the following unsatisfactory matters:-

1.1.1 Management of IT operations

The County is yet to develop some of the key ICT documents for it to effectively and efficiently govern and manage IT operations. These include:

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

1.1.2 IT Organization Structure

The ICT department at the County headquarters has four (4) employees who do not have defined roles and responsibilities for them to effectively manage the IT operations at the County.

1.2 Hardware

Assessment of the existence and management of the hardware infrastructure at the county revealed the following:

1.2.1 Computers and Accessories

The County had been supplied with twenty (20) personal computers by the National Treasury which will be solely used for IFMIS. The County however, did not have a comprehensive inventory for all ICT assets at the headquarters and all the sub-county offices. It was therefore unlikely that ICT staff could effectively manage these assets and provide the necessary hardware maintenance

1.2.2 Data Centre

The County had one (1) data center (server room) at Chuka Municipal Council offices. A physical inspection of the data center indicated the following:

- i. The room was not a restricted area and therefore easily accessible to unauthorized persons
- ii. Servers were exposed to dust and over-heating and there was no air-conditioning system to control the temperatures
- iii. There were no fire extinguishers within reach
- iv. The server room was also used as an office for staff.
- v. The server room housed highly combustible materials like cartons and papers.

1.2.3 Network Connectivity

There was Local Area Network (LAN) at the County Treasury and at the former Chuka Municipal Council offices. There was however no Wide Area Network to connect these offices.

1.3 IFMIS and G-Pay

IFMIS was not operational at the County despite receiving personal computers from the National Treasury. Personal computers that had been installed with IFMIS will use Orange CDMA Modems to connect to IFMIS through the Treasury's Virtual Private Network (VPN).

As at the time of audit in September 2013, all payments were being done manually by use of cheques.

1.4 LAIFOMS

LAIFOMS had only been installed at the Chuka Municipal Council offices and was mostly been used in revenue collection, issuance of single business permits, property management and recording of accountable documents.

A reconciliation of revenue collected between 5th March to 30 June, 2013 revealed that Kshs.719,095 had not been banked as at the time of the audit. It was however explained that the officers may have physically banked the cash but failed to post the same to the system.

The human resource module was not being used after consolidation of payrolls in IPPD, while expenditure modules were deactivated with effect from 1 July 2013.

1.4.1 Weak Logical Controls

Review of the event activity logs from LAIFOMS revealed that officers were sharing passwords, where a user had logged in two different modules in two different workstations at the same time. The sharing of passwords was confirmed by the officers. It was also noted that the ICT manager was not the system administrator in LAIFOMS and therefore he was not in control of how access rights were been granted.

3.7 Personnel Records

(i) Integrated Personnel Payroll Database (IPPD)

The County has since consolidated the employees' complement and payroll for all the sub-county offices. The first consolidated payroll to be processed and paid was for the month of July 2013.

During the audit, we extracted the employees' details and payroll from LAIFOMS for the month of June 2013. The data extracted was compared with the July 2013 IPPD payroll and our analysis revealed the following:

(ii) Segregation of Duties

Review of the user access rights revealed that users have been granted more than one user accounts with conflicting roles, which include access to both complement and payroll. This violates the principle of segregation of duties and the explanation for multiple access rights was that officers were given so as to enable them to edit employees' details. This is a sign of serious control weakness which should not be accepted.

Recommendations

In order to mitigate the risks, the following are proposed recommendations:

- i) The County should develop and approve key ICT documents that would 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 be circulated to all staff to create awareness and ensure compliance.
- ii) The county should consider having a Wide Area Network (WAN) that connects all sub-counties with the county headquarters to ensure that operations are centrally managed.
- iii) The management should ensure that all revenue collected and banked should be captured in the LAIFOMS to facilitate timely reconciliations.
- iv) The ICT department as strategic resource should be adequately staffed with clearly defined roles for effective management of IT operations at the County.
- v) The server room should have adequate physical and environmental controls which include reinforced physical doors, air conditioning systems, smoke detectors and fire extinguishers among others.

3.8 Integrated Financial Management Information System (IFMIS)

Although IFMIS program had been installed at the County offices, it was not being utilized hence defeating the purpose for which it was installed. Instead, the County Treasury was using manual vote books and as at the time of audit on 20 September 2013, IFMIS was not operational due to connectivity problem and lack of adequate training of staff to effectively manage the system.

The County Government should ensure that connectivity challenges are addressed and staff trained on how to operate the IFMIS to facilitate prudent financial management at the County.

3.9 Other Audit Findings

(i) Ineffective Internal Audit

Audit verifications revealed existence of an established internal audit department but there was no evidence that audit work had been conducted. It was noted that the internal auditor has not carried out any risk assessments, evaluation of internal controls, among other responsibilities associated with the department. Further, the department had only one officer who was acted as the interim head of internal audit. The department was therefore under staffed and hence could not be able to undertake its responsibilities effectively. The County Government had also not established audit committee as required by Section 155(5) of the Public Finance Management Act, 2012.

The County Government should ensure that the department of internal audit is adequately staffed to enable it discharge its functions efficiently and effectively, and an internal audit committee is established to review and take appropriate action on the reports from internal auditor.

(ii) Irregularities on Budgetary Allocations

Budgetary allocations totalling Kshs.79,747,922 were received from the National Government during the period April to June 2013. However, audit verifications revealed the following unsatisfactory matters:

(iii) Authorities to Incur Expenditure (AIE's)

The total allocation received of Kshs.179,747,922 was not supported by Authorities to Incur Expenditure (AIEs) documents which would clearly indicate how the funds were to be used. Instead, only Kshs.118,155,722 was supported by some printed estimates. The balance of Kshs.61,592,200 was not supported by any printed estimates and the AIEs issued to the accounting officer. Consequently, it was not possible to confirm the components against which these funds were to be utilized.

(vi) Non Allocation of Funds

Tharaka Nithi County Treasury was operating three manual vote books for the County Assembly Services; County Executive Services and Finance Management Services. Audit verification revealed that only a total of Kshs.107,750,722 was committed in the three vote books. Given that the total allocation issued by the national government was Kshs.179,747,922, it was not explained why the balance of Kshs.71,997,200

was not committed in the vote books. However, the funds had not been utilized and were still being held in the Tharaka Nithi Imprest bank account whose bank statement showed a balance of Kshs.99,665,923 as at 30 June 2013. The failure to commit the funds in the vote books was contrary to provisions of Section 5.5.3 of the Government Financial Regulations and Procedures which requires that allocation is entered in the vote books to ascertain at all times availability of uncommitted funds.

(vii) Inaccurate Vote Books Entries

Examination of vote books maintained at the County Treasury revealed that a total of Kshs.30,824,545 was spent over and above the allocations recorded in the vote books for some specific items as detailed below:-

Vote Book Allocation Summaries

	Total Allocations	Total Expenditure	Over Expenditure
County Assembly Services:			
Refurbishment of Buildings	10,884,567	12,426,737	-1,542,170
County Executive Services:			
Basic Salaries	11,125,000	35,946,338	-24,821,338
Travel Costs	5,000,382	7,058,558	-2,058,175
Finance Management Services:			
Printing and Publishing	791,000	1,333,325	-542,325
Travel Costs	3,605,000	5,237,374	-1,632,374
Maintenance Expenses M/Vehicles	<u>500,000</u>	<u>728,163</u>	<u>-228,163</u>
	<u>31,905,950</u>	<u>62,730,495</u>	<u>-30,824,545</u>

The total AIE allocations recorded in the vote books for above the indicated items was Kshs.31,905,950 while the total expenditure charged was totalling Kshs.62,730,495. This resulted to an over expenditure of Kshs.30,824,545. This clearly shows that the vote books were not being utilized as required by the government financial regulations and procedures. The source of extra funds used to meet the excess expenditure has not been explained.

(viii) Non Surrender of Un-Utilized Funds

As at 30 June 2013, the total expenditure as per the manual vote books was Kshs.117,279,258 against total allocations of Kshs.179,747,922, leaving unspent balance of Kshs.62,468,663. However, contrary to Section 136 of the Public Finance Management Act, 2012, the un- utilized funds were not paid back to the County Exchequer Account. The bank balance as at 30 June 2013 was Kshs.99,665,923.

The County Government should ensure compliance with Section 136 of the Public Finance Management Act, 2012 in future.

(ix) Unsupported Expenditure

Examination of payment vouchers for the period March to June 2013 disclosed that expenditure totaling Kshs.18,669,820 was incurred in payment of various types of allowances to County staff and officials and procurement of goods and services. However, the expenditure was not supported by relevant expenditure documents like vehicle work tickets, bus tickets, cash sale receipts, workshop invitation letters Local Purchase Orders /Local Service Orders (L.P.O/L.S.O's), requisition orders from user departments, invoices, stores ledgers, letters of authority and approvals etc. Most of the payment vouchers were only supported by imprest forms which were not serially numbered.

It was also noted that officers were issued with imprests on diverse dates for various reasons and the imprests were credited/expended in the cash books before services were confirmed received. No control measures were in place to ensure that the imprests were surrendered or accounted for by the imprest holders. The crediting of the imprests in the cash book made it more difficult to confirm that amounts issued were spent for the intended purposes. Further, no imprest register was maintained to record amounts issued to officers, date of issue and due date which assist the management in proper control of imprests.

In view of the above, propriety of expenditure totalling Kshs.18,669,820 incurred by the County Government could not be confirmed.

Recommendation

The County Government should ensure that expenditure is properly accounted for by ensuring production of relevant documentary evidence to support and confirm that funds were used for the intended purposes, or effect recovery of amounts not properly accounted for from the beneficiaries.

(x) Payment for goods not supplied

The County Government paid for seven Laptops and twelve I-Pads as per the following payment vouchers:-

P.V. No	Cheque No.	Particulars	Amount (Kshs.)
097 of 24/5/13	000228	7 Laptops	560,000
0122 of 24/5/13	-	12 I-Pads	1,080,000

Scrutiny of the payment vouchers and their supporting documents revealed the following anomalies.

- i) The quotations used to source the suppliers were not dated, hence it was not possible to confirm the date they were purportedly floated.
- ii) All the bidders did not provide sufficient information on their registration for VAT, tax compliance, location, business permit e.t.c. to prove their authenticity and ability to supply the computers.

- iii) The delivery notes attached to the payment vouchers showed that only four Laptops worth Kshs.320,000 and five I-Pads worth Kshs.450,000 were delivered and confirmed received by the County ICT Manager and Procurement officer, leaving three Laptops and seven I-Pads worth a total of Kshs.870,0000 undelivered.
- iv) Equipment delivered was recorded in the permanent stores inventory on receipt and therefore their issuance was verified.

In view of the above, a total of Kshs.870,000 paid to the suppliers remains unaccounted for.

The County Government should account for the undelivered goods, and also ensure that no payment is made for goods/services not delivered/supplied.

Former Town Council of Chogoria.

3.10 Improper Handing Over to the County Government

It was observed that:-

- i). No formal handing over of the assets, liabilities and staff of the former local authority took place, contrary to the requirements of the Ministry of Local Government circular of 18th February, 2013.
- ii). As at the time of audit, some officers including the former Town Clerk and the Treasurer had been transferred to other stations within the County. However, no handing over report had been prepared to show the actual position of the sub-county in terms of assets, liabilities and human resource attached to it. A statement of assets and liabilities dated 28 February seen had not been acknowledged by the County Secretary.

The County Government should recall the former Chief Officers of the defunct Local Authority and ensure that a proper handing over is done. This will enable the County Government have a basis for balances to be recorded in its books of account.

3.11 Current Assets and Liabilities

(i) Cash and Bank Balances

(a) Non-closure of the Defunct Council's Bank Accounts

The former Town Council maintained six bank accounts in two different commercial banks as indicated below:-

Bank	Nature	Balances	
		Kshs.	Kshs.
		28/02/2013	30/06/2013

KCB	LATF	Not availed	Not availed
KCB	GRF	289,589.50	8,588.80
KCB	KKV	2,300.00	3,450.00
KCB	RENEWAL	43,300.00	43,300.00
Co-operative	LATF	Not availed	Not availed
Co-operative	KRB	Not availed	Not availed

The balances were as per the bank statements. However, the cash books were not ruled and therefore the correct balances as per the cashbooks could not be determined. All these accounts were supposed to be closed upon the takeover of the Council by the County Government. However, as at the time of audit on 27 August 2013, the bank accounts had not been closed. The banking of revenue collections to the GRF account was stopped on 10 May 2013.

No explanation was given as to why the six accounts remained operational although the Council's operations had been taken over by the County Government.

(b) Poor Maintenance of Cash Books

The former Town Council maintained a receipts and a payments cash book separately for the GRF and LATF accounts. It was therefore difficult to establish the cash book balances at any one time. Further, no cashbooks were maintained for all the other accounts.

(c) Non-Preparation of Bank Reconciliation Statements

The Council did not prepare bank reconciliation statements as required by financial regulations and procedures. No explanation was given as to why the reconciliation statements were not being prepared.

(d) Failure to Conduct Cash Board of Survey

There was no cash board of survey that was carried out in the period 2012/2013 including 28 February and 30 June 2013. The survey on 28 February 2013 would have provided the cash and bank positions on the date the Council was supposed to have closed its final accounts in readiness for takeover by the County Government.

(e) Un-Presented Cheques

Cheques totaling Kshs.2,934,302 had not been presented to the bank for payment as at the time of audit in August ,2013. A few of the cheque leaves were seen while the whereabouts of the other cheques was not explained as they were not availed for audit purposes. Further, the cheque dispatch register was not availed for audit verification and therefore, it could not be confirmed if the cheques had been

dispatched or not. All the cheques issued prior to April 2013 have since become stale.

The County Government should ensure that the bank accounts are closed and balances transferred to County Revenue account and appropriate action should be taken to clear the un presented cheques.

(ii) Debtors/Receivables

Debtors reported in the statement of assets and liabilities as at 28 February 2013 totalled Kshs.26,363,828. A breakdown of the debtors was not provided for identification and confirmation of correctness of the individual debtors making up the figure. However, a schedule of plot rent debtors totaling Kshs.1,062,252 was provided on the claim that they had been excluded from the reported debtors as at 28 February 2013. This claim could not be confirmed as the Council did not update its creditors' ledger. The last entry made in the ledger was for CILOR of Kshs.26,431,255, made on 12 April 2012. As at 30 June 2013, the only debtors confirmed were plot rent totaling Kshs.927,790 and CILOR Kshs.26,431,255. The County Government should ensure that an updated debtor's ledger is maintained and existence and recoverability of the debts ensured.

In view of the foregoing, the correct position of debtors at 30 June 2013 could not be confirmed.

(iv) Current Creditors/Payables

The creditors' balance as at 28 February 2013 was Kshs.3,879,625 as reflected in the statement of assets and liabilities comprised of the following:-

Particulars	Amount (Kshs)
Salary Arrears	980,825
Laptrust Actuarial deficit	1,639,737
Statutory Deductions	810,983
Suppliers	<u>448,080</u>
Total	<u>3,879,625</u>

The creditors' balance was not supported by invoices or demand notes from the suppliers or a properly maintained creditor's ledger. The Council had a creditors' ledger which was not updated and therefore it was not possible to confirm accuracy of creditors balance as at 28 Feb 2013, as well as at 30 June 2013. The County Government should keep an updated creditors ledger and ensure that all creditors are validated before any payment is made.

3.12 Fixed Assets

i) Office Furniture and Equipment

The statement of assets and liabilities as at 28 February 2013, reflected a balance Kshs.418,481 against furniture, fittings and equipment. A comparison made between the results of physical verification of office furniture and equipment and the statement of assets and liabilities as at 28 February 2013, indicate that the number of chairs increased from thirty (30) to forty nine (49) while that of tables decreased from twenty two (22) to twenty (20). It was explained that the additional nineteen (19) chairs were received from the Ministry of Local Government headquarters, Nairobi, on a date which was not specified by the management of the former Town Council. This could not be confirmed as fixed assets register was not maintained.

ii) Motor Vehicles

Records made available during the audit indicated that the former Town Council owned only one motor vehicle KUL 933 with a value of Kshs.153,346. However, no valuation report was produced for audit confirmation. The fixed Assets register should be updated regularly, and additional assets recorded. Proper systems which would ensure safe custody of the assets should be developed.

3.13 Revenue Collection

The defunct Town Council of Chogoria was banking all the revenues collected in a KCB bank account up to and including 10 May 2013, after which the revenue was banked in the new Tharaka Nithi Revenue Account held at Equity bank. This was despite the fact that the revenue account was supposed to have been operationalized immediately after March 4 general election on March, 2013.

A review of the revenue records for the period January to June 2013 revealed the following unsatisfactory matters:-

(i) Under-banking of Revenue

A comparison of the revenue collections for the period 1 January to 10 May 2013 as recorded in the cashbook with the total banking for the same period revealed an under-banking of Kshs.356,022. The analysis is as indicated here below:-

Month Collection	Kshs	Bankings	Variance
	Kshs	Kshs	Kshs
January	677,840	645,680	32,160
February	687,565	666,275	21,290
March	1,400,345	940,603	459,742
April	1,153,545	1,238,445	-84,900

10 th May	<u>185,620</u>	<u>257,890</u>	<u>-72,270</u>
Total	<u>4,104,915</u>	<u>3,748,893</u>	<u>356,022</u>

The under banking implies spending of revenue at source, contrary to the financial regulations and procedures. However, the amount was not supported by any cash or cash equivalents.

(ii) Unexplained Under Collection of Revenue

A comparison of the total revenue collected in the period January to June 2013 and the same period in 2012 revealed that revenue collection went down by about 39%. The total collection for the period in 2012 was Kshs.8,161,963 while that for 2013 was Kshs.4,990,618, leading to a variance of Kshs.3,171,345. No explanation was provided by management for the significant under collection although analysis done revealed that, the under collection could have been caused by non-issuance of business permits and non-collection of parking fees and barter market revenue.

(iii) Un-used Revenue Receipts Books

It was noted that various receipt books previously used by the Town Council of Chogoria, and bearing letter heads of the former Council, had ceased being used in collection of revenue. Instead, the sub-county was using new receipts books issued by the County Government and which bore the name Tharaka Nithi County. There was no directive given as to how the old books were to be handled. However, a review done in other sub counties within the County revealed that the books held by the defunct local authorities continued being used in collection of revenue and once completed, new ones were being sought from the County Government. It was therefore not explained why the same approach was not applied at the former Chogoria Town Council to avoid wastage of the receipts and also prevent any unauthorized use of the receipts to collect revenue. The County Government should improve systems for revenue collection, recording and banking to address under banking of revenue and clear guidelines to be sought from the County Revenue Officer on how to deal with un used receipt books.

3.14 Personnel Records/ Payroll

As at January 2013, the former Council had 23 permanent employees. Two more employees were introduced in the March 2013 payroll for the first time. On enquiry it was explained that one of the officers was a senior drafts man who had been transferred to the station. The other was a newly recruited driver appointed on salary scale 17 grade 3. However, the recruitment of the driver was not supported by relevant records such as minutes approving the recruitment, the advertisement for the position, and any interview results. It was therefore not clear on whose authority the driver was employed.

Further, the gross salary for the month of January 2013 of Kshs.1,562,428, increased over and above the December 2013 figure of Kshs.1,033,871 by Kshs.528,557, and

was explained as due to a new CBA implemented effective September, 2012. The recruitment of the driver should be investigated by the County Government and appropriate action taken.

Former Municipal Council of Chuka

3.15 Improper Handing Over to the County Government

It was observed that:-

- i) No formal handing over of assets, liabilities and staff of the former local authority was done, contrary to the requirements of Ministry of Local Government circular of February, 2012. Only a brief from the former Council which included the statement of assets and liabilities as at 28 February 2013 was availed.
- ii) As at the time of audit in August 2012, some chief officers including the former Town Clerk and the Treasurer had been transferred to other stations within the County. However, no handing over report had been prepared to show the actual position of the sub county in terms of assets, liabilities and human resource attached to it.
- iii) A statement of assets and liabilities dated 28 February was prepared by the former Clerk to the Council as required by the circular from Ministry of Local Government. However, the statement had not been acknowledged by the County Secretary.

Recommendation

The County Government should recall the former Chief Officers of the defunct Local Authority to ensure that proper handing over is done.

3.16 Current Assets and Liabilities

(i) Cash and Bank Balances

(a) Non-Closure of Bank Accounts

The former Municipal Council had seven bank accounts maintained in three different commercial banks as indicated below:-

Bank	Nature	Balances:	
		28/02/2013	30/06/2013
Cooperative	GRF	6,279,299.72	13,209.72
Cooperative	LATF	2,005,438.95	2,538.95

Cooperative	KRB	18,971.65	9,721.65
KCB	GRF	Not availed	Not availed
KCB	GRF	(634.51)	(5,234.51)
Equity	GRF	89,841.72	1,245,639.22
Equity Renewal		30,269.50	30,269.50

All the accounts were supposed to be closed upon the takeover of the former Council by the County Government. However, as at the time of audit on 20 August 2013, the accounts had not been closed. The bank balances as at 30 June 2013 were confirmed through bank statements and certificates of bank balances obtained from the respective banks. No explanation was given for not closing the seven bank accounts despite the Council's operations having been taken over by the County Government in March 2013.

(b) Non-Maintenance of Cash Books

The former Municipal Council was not maintaining receipts and main cash books. The receipts cash book would show all the receipts received by the Council at any given date including daily revenue collections. The main cash book would involve the concept of double entry where receipts and payments are recorded on a daily basis. In the absence of the main cash book, it was not possible to establish the cash book balances at any one time.

(c) Failure to Prepare Bank Reconciliation Statements

The former Municipal Council did not prepare monthly bank reconciliation statements as required by the financial regulations and procedures. No explanation was given for the omission.

(d) Failure to Conduct Cash Board of Survey

No cash board of survey was carried out on 28 of February 2013 when the statement of assets and liabilities was prepared. The survey on 28 February 2013 would have provided the cash and bank positions of the Council on its last day of operations before the takeover by the County Government.

(e) Cheques not Posted in the Cash book

The following Cheques totalling to Kshs.5,223,351 had not been posted in the cash book as at 30 June, 2013 although they had been presented to the bank :-

Cheque No.	Date	Amount (Kshs)
00766	30/04/2013	128,425
00767	30/04/2013	900,000
00768	30/04/2013	504,400

00769	30/04/2013	143,175
00771	31/05/2013	791,315
02334	22/11/2012	755,561
002387	30/04/2013	154,850
002388	30/04/2013	245,625
002389	30/04/2013	900,000
002390	30/04/2013	<u>700,000</u>
Total		<u>5,223,351</u>

The payments cash book was therefore not up dated with the above payments and hence not reflecting the correct cash position of the Council.

(f) Un-Presented Cheques

The following cheques had not been presented to the bank for payment as at the time of audit in August, 2013. The whereabouts of these cheques was not known as no outward cheques register was maintained to show how they were dispatched.

Cheque No	Date	Amount (Kshs)
0728	05/02/2013	3,500
0757	02/04/2013	1,170
0771	31/05/2013	791,315
02363	27/02/2013	<u>100,000</u>
Total		<u>895,985</u>

Two cheques numbers 0728 and 0757 had already gone stale as at the time of the audit in August, 2013. The County Government should ensure that the closure of the bank accounts is effected, appropriate action is taken to clear the un-presented cheques, and that cashbooks are properly maintained and all payments posted to the cashbooks. The cash books should be balanced on daily basis and accuracy of the same confirmed by a senior official.

(ii) Debtors/Receivables

During the period 1 January to 30 June 2013, total debtors' figure reduced from Kshs.8,958,586 as at 28 February, 2013 to Kshs.8,732,278 as at 30 June 2013, which comprised property rates of Kshs.8,503,328 and House and stalls rent of Kshs.228,950. However, the Council did not maintain debtors' ledger and no plot rent registers were availed for audit review.

The County Government should ensure that a debtors' ledger is maintained and all debtors recorded in the ledger. Further, a debt management strategy should be developed to facilitate debt collection.

(iii) Creditors Balances

The statement of assets and liabilities as at 28 February 2013 reflected outstanding creditors totalling Kshs.9,336,288 as summarized below:-

Particulars	Amount (Kshs)
PAYE	1,016,345
Staff Salaries	3,335,317
Legal Fees	853,000
Audit Fees	585,000
Suppliers	1,009,386
Other Deductions	<u>2,537,240</u>
Total	<u>9,336,288</u>

The position did not change as at 30 June, 2013. However, the former Municipal Council did not maintain a creditors' ledger and therefore it was not possible to ascertain the correct position of the creditors' balance as at 28 February and 30 June 2013.

The County Government should ensure that a creditor's ledger is put in place for the Sub County and ensure that all creditors are validated before payments are made.

3.17 Fixed Assets

(i) Furniture and Office Equipment

A physical verification of furniture and equipment revealed unexplained variations between physical count and statement balances as shown below:

Item	Statement of Assets	Physical	Variance
Chairs	-	50	50
Printers	5	5	-
Server	-	1	1
Tables	-	22	22
Cabinets	-	11	11
Fax	1	1	-
Generator	1	1	-
Projector	1	1	-

The variances arose because the statement of assets and liabilities did not disclose all the assets as at 28 February 2013.

(ii) Motor Vehicles

It was further observed that the Council owned a fleet of motor vehicles as shown below:-

Registration No.	Description	Logbook No.	Condition	Verification
KAR 143L	Saloon	685622	Operational	Seen
KAB 320Q	Tractor	R043819E	Operational	Seen
ZB3024	Trailer	R0564684G	Operational	Seen
ZB3022	Trailer	R0563500S	Operational	Seen
ZB3023	Trailer	R0563651Z	Operational	Seen
KWE 340	Pickup	R0436839G	Not Operational	Seen
KUL 937	Tractor	R0564871E	Not operational	Seen
ZA9057	Trailer	R0436827D	Operational	Seen
KAB 394Q	Tractor	R0436816B	Not operational	Seen
G.K. A336U	Fire Engine	R07060425	Operational	Seen
ZB6492	Trailer		Operational	Seen

All the motor vehicles indicating a value of Kshs.7,612,800 were disclosed in the statement of assets and liabilities as at 28 February 2013. Two motor vehicles registration numbers ZB6492 and G.K A 336 U were not recorded in the assets register. Further, the logbook for ZB 6492 was not availed for verification and confirmation of ownership. It was also observed that motor vehicle registration no. G.K A 336 U which was donated to the Council by the then Ministry of Local Government in 2010 has never been registered in the Council's name. In addition, the Fixed Assets Register was not updated to reflect the correct position of assets as at 30 June 2013.

Up-dated fixed assets register should be maintained in order have a proper record of County assets. Also, the missing log book should be traced or application for a duplicate copy made to Kenya Revenue Authority.

3.18 Revenue Collection

The Council collected revenue totalling Kshs.12,764,737 between January to 30 June, 2013. However, revenue collected totalling Kshs.403,870 was not banked intact as shown here below:-

Date	Total Collection	Banking	Under banking
24/05/13	108,715	58,715	50,000
17/05/13	125,683	70,083	55,600
15/05/13	117,645	67,645	50,000
13/05/13	107,700	57,730	49,970

30/04/13	58,434	48,934	9,500
22/04/13	115,117	65,117	50,000
8/04/13	129,790	79,790	50,000
30/04/13	995,684	957,684	38,000
26/03/13	215,838	165,838	50,000
1/03/13	<u>44,230</u>	<u>43,430</u>	<u>800</u>
TOTAL	<u>2,018,836</u>	<u>1, 614,966</u>	<u>403,870</u>

The revenue not banked was apparently directly spent by the Council, contrary to the financial regulations and procedures. No documents supporting the expenditure were made available for audit confirmation.

All rules and regulations governing collection, banking and accounting for revenue should be complied with at all times. The under banking of Kshs.403,870 should be investigated to confirm how the money was utilized.

3.19 Personnel/Payroll Records

Audit verification of salary payments revealed that, the former Municipal Council of Chuka paid salary arrears totaling Kshs.3,819,650 for the five months ending 31 January 2013. However, the statement of assets and liabilities as at 28 February 2013 reflected salary arrears of Kshs.3,335,317. The difference of Kshs.484,333 was explained to have been caused by implementation of a new Collective Bargain Agreement (CBA) which required the new salaries to be implemented in September 2012. It was further noted that the salaries were paid out of LATF account yet expenditure had not been provided for in the LATF budget for 2012/2013. The salary arrears payments are as detailed below:

Vch/Cheque No.	Date	Bank Details	Amount (Kshs)
0042	30/04/2013	Equity	143,175
0040	30/04/2013	MSFC	3,004,400
0044	30/04/2013	KCB	154,850
2388		Coop Bank	245,625
00766	30/04/2013	Family	128,425
00769	30/04/2013	Equity	<u>143,175</u>
Total			<u>3,819,650</u>

No explanation was given for paying salary arrears from LATF Account. The County Government should ensure that future salary reviews are in line with the requirements of Salary and Remuneration Commission and adequate budgetary provision made for the expenditure.

Former County Council of Meru South

3.20 Improper Handing Over to the County Government

It was observed that:-

- i) No formal handing over of the assets, liabilities and staff of the former County Council of Meru South was done, contrary to the requirements of the circular dated 18 February, 2013 from the former Ministry of Local Government. Only unsigned brief about the Council, which included the statement of assets and liabilities as at 28 February 2013 was availed for audit review.
- ii) As at the time of audit in September 2013, some officers including the former Town Clerk and the Treasurer had been transferred to other stations within the County. However, no handing over report had been prepared to show the actual position of the sub county in terms of assets, liabilities and human resource attached to it.

The correct position of the former County Council's assets and liabilities should be obtained and a proper official handing over done to enable the County Government have a basis for balances to be reflected in its books of account.

3.21 Current Assets and Liabilities

(i) Cash and Bank Balances

(a) Non-closure of bank accounts

The former County Council had five bank accounts maintained in three different commercial banks as shown below:-

Bank	Nature	28/03/2013	30/06/2013
Equity	LATF	-	347,794.00
Coop	LATF	11,181,011.18	1,529.92DR
Coop	GRF	377,341.45	295.55DR
KCB	Renewal	8,695.02	6,095.02
Coop	KKV	-	4,500.00

All the above accounts were supposed to have been closed upon the takeover of the Council by the County Government. However, as at the time of audit in September 2013, none of the accounts had been closed.

(b) Non-maintenance of Main Cash book

The former County Council was not maintaining receipts and main cash books. The receipts cash book would have shown all the receipts received by the Council at any given time including daily revenue collections. The main cash book on the other hand would apply the concept of double entry where receipts and payments are recorded on a daily basis. In the absence of the main cash book, it was not possible to establish the correct cash book balances at any one time and even prepare accurate and reliable bank reconciliation statements.

(c) No Cash Board of Survey

No cash board of survey was carried out on 28 of February 2013 when the statement of assets and liabilities was prepared. The survey on 28 February 2013 would have provided the position of cash and bank balances of the Council before the takeover by the County Government.

(d) Payments not Posted in the Cash book

Expenditure totalling Kshs.998,247.00 was not recorded in the cashbooks of various accounts as shown below:-

Account Particulars	Bank	Amount (Kshs)
GRF	CO-OP	346,632
LATF	CO-OP	346,300
GRF	KCB	305,315

Although payment vouchers for the expenditure were examined and found correct, no explanation was given for failure to record the same in the cash books. As a result, cash book balances were overstated by expenditure totalling Kshs.998,247 omitted from the cash book.

(e) Overdrawn Bank Account

The Council overdrawed its GRF bank A/C maintained at Equity by Kshs.3,505,647 on 31 May, 2013 as evidenced by the respective bank statement. Although it was explained that the overdraft was meant to facilitate payment of staff salaries, no appropriate authority was sought and granted before the bank account was overdrawn. The County Government should ensure that All bank accounts not yet closed should be closed without further delay and balances transferred to County Revenue Fund, a main cash book is maintained for prompt recording of receipts and payments and to facilitate timely reconciliation of the cash book balances with bank records and Bank reconciliation statements are prepared for all cashbooks on a monthly basis and accuracy of the same confirmed by a senior official.

(iii) Debtors/Receivables

Examination of the list of debtors availed for audit disclosed a total balance of Kshs.85,411,151 made up of plot rent and contributions in lieu of rates of Kshs.6,691,684 and Kshs.78,719,467 respectively, as at 28 February 2013. As at 30 June, 2013, the figure increased to Kshs.101,498,544 made up of Kshs.11,462,077 and Kshs.90,036,467 for plot rent and CILOR respectively. However, no debtors' ledger was maintained by the Council and therefore, accuracy of debtors' balances as at 28 February and 30 June 2013 could not be ascertained.

The County Government should ensure that a debtors' ledger is maintained to ensure accuracy and completeness of the records and balances. Also, the County Government should develop a debt management policy to enable proper management of receivables, including timely recoverability of the same.

(iii) Current Creditor/Payables

The creditors' balances as at 28 February 2013 totalled Kshs11,129,189 as reflected in the statement of assets and liabilities.

Only actuarial deficit of Kshs.2,054,950 and ALGAK figure of Kshs.818,061 were supported by invoices. The remaining creditors' balance of Kshs.8,256,678 was not supported by invoices or demand notes from the creditors'. Further, no creditor's ledger was made available to support the balances. Consequently, it was not possible to confirm the correct position of creditors as at 28 February and 30 June 2013.

The County Government should maintain an updated creditors' ledger and ensure that all creditors' balances are fully supported with necessary documents. Further, the creditor's balances stated in the statement of assets and liabilities should be validated to confirm their authenticity.

3.22 Fixed Assets

(i) Office Furniture and Equipment

The Council presented a statement of assets and liabilities as at 28 February 2013 reflecting furniture, fittings and equipment with a total value of Kshs.1,652,531. Although a physical verification confirmed existence of the furniture and equipment, it was however not possible to confirm their value as reflected because the fixed assets register maintained by the Council was not up to date.

(ii) Motor Vehicles

The statement of assets and liabilities reflects Kshs.2,970,000 as the value of motor vehicles as at 28 February, 2013. The list attached to the statement shows six vehicles of various makes. Further verifications revealed that log books for vehicle registration numbers KAN 031P, KAV 338E, KAW 799Z, KAH 100Y, KAV 811E and KSL 004 got lost and therefore, ownership by the Council could not confirmed. Although the Council provided copies of police abstract forms secured after the loss

of the log books, no effort appears to have been made to obtain duplicate copies from Kenya Revenue Authority.

Ownership documents for the motor vehicles should be obtained for safe custody. Also, a fixed assets register should be maintained and updated regularly.

3.23 Revenue Collection

The defunct County Council of Meru South was banking all the revenue collected in Equity bank account up to and including 19 April 2013. This was despite the fact that the revenue account was supposed to have been operationalized immediately after 4 March 2013 general election.

A review of the revenue records for the period 1 January to 30 June 2013 revealed the following unsatisfactory matters:

(i) Under-banking of Revenue

A comparison of revenue collections for the period 1 January to 19 April 2013 as recorded in the cashbook, with total revenue banked during the same period revealed total collections of Kshs.8,789,733 against total banking of Kshs.8,247,371, resulting to an under banking of Kshs.542,362. This amount was not supported by any cash or cash equivalents. The analysis is as indicated here below:

Month	Collection	Banking	Variance
	Kshs.	Kshs.	Kshs.
January	1,531,979	937,673	594,306
February	1,421,919	1,411,705	10,214
March	4,584,703	3,883,926	700,777
19 th April	<u>1,251,132</u>	<u>2,014,067</u>	<u>-762,934</u>
Total	<u>8,789,733</u>	<u>8,247,371</u>	<u>542,362</u>

As at 30 June 2013 total collection was Kshs.11,675,979 against total banking of Kshs.11,144,581, and therefore an under banking of Kshs.531,398. The under banking has not been explained or reconciled although indications are that it represents money spent directly, contrary to the regulations.

(ii) Under-Collection of Revenue

A comparison of the total revenue collected during the period January to April 2013 of Kshs.9,277,277 and the same period in 2012 of Kshs.14,234,404 revealed that revenue collection went down by Kshs.4,957,127 or 35%. As at 30 June 2013, the collections were Kshs.17,135,730 and Kshs.11,746,328 for 2012 and 2013

respectively, and therefore a decrease of Kshs.5,389,402. No explanation was given by management as to the main cause of the under collections. The audit analysis however revealed that significant under collection of Kshs.3,170,200 occurred in the month of March 2013 compared to the same month in 2012, with single business permit recording a variance of Kshs.1,717,900. This may imply that some businesses may not have been issued with annual business permits for the year 2013.

The County Government should ensure that the under banking is investigated and also proper systems put in place to ensure that revenue collected is banked intact as required by the financial regulations, and the County Government to investigate the under collection and particularly confirm that all the registered businesses renewed their annual business permits.

3.24 Payroll

(i) Irregular payment of salaries

Perusal of the County Council's payroll revealed that gross pay for the month of March 2013 totaled Kshs.3,097,456. However, a payment vouchers no. 1 of 3 April 2013 used to pay Equity bank reflected total amount of Kshs.3,528,334 as staff net pay plus all statutory and other deductions. Therefore, the amount paid vide cheque no. 002136 exceeded payroll gross figure by Kshs.430,878. The overpayment was not explained and it could not be clarified from the payroll file made available for audit review.

(ii) Irregular payment of salary arrears

Examination of payment vouchers revealed that payments totalling Kshs.4,388,207 had been paid in the month of February 2013 as salary arrears based on a CBA registered under a certificate of registration no. CA NO.14 of 2013 which was entered into on 12 October 2012. Perusal of related documents showed that the Attorney General through a circular ref. no. MLG/1347 of 27 February 2013 expressed concern that the process that led to the CBA did not follow the guidelines issued by the Salaries and Remuneration Commission. This was due to the fact that the process did not comply with constitutional provisions. Although the circular was later withdrawn vide a circular ref. MLG/1058/III (109) of 25 April 2013, this matter remained unresolved. In spite of the lack of clarification on this matter, the Council went ahead and implemented the CBA, resulting into payment of salary arrears totalling Kshs.4,388,207.

(iii) Irregular payment of salary arrears upon reinstatement

Payment totalling Kshs.2,730,972 was made to a Council official (County Clerk salary scale 4) as salary arrears from 19 November 2008 up to and including 31 October 2012, in accordance with the CBA of October 2012. Available information indicate that the officer had been suspended from duty vide a letter ref. No. C/130811.7/III/(35) of 19 November 2008. In the letter, it was stated that the officer

was suspended on account of attempt to steal Kenya Roads Board funds worth Kshs.11,900,000. Thereafter, he was reinstated vide a letter ref. C/1308117/III/(31) of 10 December 2012. This letter also stated the period of retrospective salary payment. However, perusal of the officer's personal file revealed that the officer had written a letter ref. MSCC/ST/1/3/052/11 of 26/11/2008 to the Managing Director of LAPTRUST stating that he was due to retire on 31/12/2008. From this revelation, the officer only qualified for arrears for the month of December 2008 and not the period from November 2008 to October 2012.

No proper reason was given to explain why this matter was overlooked before making the reinstatement and extension of service of the officer and paying him the arrears. No evidence contrary to the letter he wrote was availed to prove authenticity of his claim on the salary arrears.

It is recommended that the County Government investigates to establish where the discrepancies noted above arose from, and take necessary action to address the irregularities.

3.25 Other Audit Findings

Unsupported payments

Perusal of payment vouchers revealed payments totalling Kshs.2,510,436 made for various purposes and which were not supported by relevant documents. The payments were made in respect of repair of motor vehicles (Kshs.488,870) , wages to casuals(Kshs.183,204), allowances to County officials(1,718,362) and accommodation allowance while on transfer (120,000). However, no documentary evidence was availed for audit review to support the expenditure of Kshs.2,510,436.

The County Government should ensure that systems are put in place for approval of future payments so that only fully supported payment vouchers are approved for payment.

Former County Council of Tharaka

3.26 Improper Handing Over to the County Government

The County Government had started effecting various changes in the Sub - County(former Council),but no formal handing over of the assets, liabilities and staff of the former local authority was done, contrary to the circular from the former Ministry of Local Government. It was therefore not possible for the County Government to confirm what was inherited from the defunct County Council of Tharaka.

Further, as at the time of audit in September 2013, some officers including the former Town Clerk and Treasurer had been transferred to other stations within and outside the County. Despite this, no handing over report had been prepared to show the actual position of the sub-county in terms of assets, liabilities and human resource

attached to the County. A statement of assets and liabilities dated 28 February 2013 availed for audit purposes had however, not been signed by the County Secretary on behalf of the County Government. Further, as explained in subsequent paragraphs of this report, it was not possible to confirm accuracy of the statement due to inadequate records maintained by the former Council.

A proper handing over to the County Government should be done and accuracy of the statement of assets and liabilities as at 28 February, 2013 confirmed to enable the County have a basis for opening balances to be reflected in its books of account.

3.27 Current Assets and Liabilities

(i) Cash & Bank Balances

(a) Non-Closure of Bank Accounts

The former County Council had six bank accounts maintained in two different commercial banks as shown below:-

Bank	Nature	Balances (Kshs)	
		28/02/2013	30/06/2013
KCB	GRF	807,713.90	76,255.70
KCB	LATF	13,773,142.40	68,887.80
KCB	RMLF	2,850.25	250.25
KCB	KKV	42,450.00	39,850.00
KCB	LATF	151.60	650.00
Co-op	GRF	Not availed	Not availed

All the above accounts were supposed to have been closed upon the takeover of the Council by the County Government. However, as at the time of audit on 16 September 2013, only two accounts for RMLF and LATF had been closed online due to depleted balances. However, no certificates of bank balances were made available for confirmation of balances as at the dates of closure. A GRF account held in Co-operative bank was reportedly with a debit balance of Kshs.2,388 as at 30 June 2012, as per the financial statements for that year. Bank statements or any other documentation or correspondence on this account was not availed. It was therefore not possible to confirm that the account had been closed.

No explanation was given as to why five of the accounts remained operational despite the Council's operations having been taken over by the County Government.

(b) Non-preparation of bank reconciliation statements

Audit verification revealed that no bank reconciliation statements for then cash books were being prepared by the former Council. No explanation was given as to why no reconciliation statements were prepared monthly as required by the financial regulations. However, in the absence of properly maintained cash books by the Council, it would not be possible to prepare any meaningful and accurate bank reconciliation statements.

(c) No Cash Board of Survey

The former Council did not conduct a cash board of survey on 28 February, 2013. The survey on 28 February 2013 would have confirmed the correct cash and bank balances on the date the Council was supposed to have closed business in readiness for takeover by the County Government.

(d) Cheques not Posted in the Cash book

Examination of LATF cash book revealed that five Cheques totalling Kshs.317,315 dated between July 2012 and May, 2013 had not been posted in the cash book as at 30 June 2013. Also, various cheques totaling Kshs.2,597,343 had not been posted in the GRF cash book as at 30 June 2013. However, all the cheques were confirmed presented and honoured by banks. The LATF and GRF cash books were therefore not up dated and hence not reliable to give the correct position regarding the Council transactions.

(e) Un-Presented Cheques

Cheques amounting to Kshs.83,096 drawn against LATF account had not been presented to the bank for payment as at the time of audit. However, only two cheque leaves for cheques nos. 000313 and 000189 were seen. The whereabouts of the other cheques was not explained as they were also not recorded in the Council's office documents delivery book. All the cheques have since gone stale and should be reversed in the cash book.

Cheques totaling Kshs.5,209,327 relating to the GRF account had also not been presented to the bank for payment as at the time of audit in September, 2013. Only nine cheque leaves were seen while some five cheques were confirmed to have been delivered or dispatched to the payees in the delivery book. The whereabouts of the other cheques was not explained. All the cheques have since gone stale and should be reversed in the cash book since bank balance for this account as at 30/6/2013 was Kshs.76,255, which would not have been sufficient to clear the un presented cheques.

(f) Poor Maintenance of Cash Books

Audit verifications revealed that the former County Council maintained one main cash book in which all General Rate Fund transactions were made. The transactions were in respect to all revenue receipts and payments made from this account. The former Council also maintained another cash book in which all LATF transactions were

made. However, the cash books were not ruled at the end of regular periods in order to come up with the daily balances. The cash books were also not checked regularly to confirm accuracy and completeness of entries made and closing balances. It was therefore not possible to establish cash book balances at any one time. The County Government should ensure the closure of the bank accounts is effected immediately, immediate action should be taken to clear the un presented cheques and Cash books are properly maintained and bank reconciliation statements prepared to ensure early detection and correction of any errors.

(ii) Debtors/Receivables

As at 30 June 2013, debtors balance totaled Kshs.11,242,785 and was in respect of plot rent. The figure excluded contribution in lieu of rates reported in the financial statements for the year ended 30 June 2012 of Kshs.2,619,086. Since the Council did not update its debtors' records, including plot rent registers, it was not possible to confirm accuracy of the debtors' balance as reflected in the former Council's records. Further, the Council did not provide the position of debtors as at 28 February 2013.

The County Government should ensure that the sub county updates its debtor's ledger and all receivables accounted for.

(iv) Creditors

The figure for creditors as at 30 June 2013 amounted to Kshs.1,757,611 which was supported by statements from various statutory institutions as indicated here below:-

Particulars	Amount Kshs.
NSSF	3,340
Laptrust	1,316,786
Salary Arrears	<u>437,485</u>
Total	<u>1,757,581</u>

The statement of assets and liabilities as at 28 February 2013 did not reflect any creditors. It should also be noted that the former Council did not maintain creditors' ledger and register to monitor movement of suppliers' balances. It was therefore not possible to ascertain the correctness of the above figure.

The County Government should ensure that the sub-county has an updated creditors' ledger.

3.28 Fixed Assets

(i) Office Furniture and Equipment

A physical verification of office furniture and equipment revealed the following;

Item Description	Statement Balance	Physical Count	Variance
Chairs	85	65	20
Printers	2	3	(1)
Lap Top	-	1	(1)
Net-work machine	-	1	(1)
Server	-	1	(1)

The chairs were confirmed less by twenty compared to the figure reflected in the statement while printers were more by one. One Lap top, network machine and server were not included in the statement of assets and liabilities. The items were indicated at their original cost of Kshs1,914,000 but most of them are fully depreciated. No valuation report was made available for audit review. Also, the assets register was not updated. The omission was not explained.

(ii) Motor Vehicles

The Council owned a fleet of five motor vehicles and two motor cycles reflected in the statement of assets and liabilities as at 28 February 2013 at their original cost of Kshs.8,892,000. Verification of motor vehicle records revealed that a log book for one motor cycle KAT 096X got lost and the matter reported at Marimanti police station. A police abstract was obtained on 23 December 2009. However, the Council has apparently not made any effort to apply for replacement of the lost log book, four years after the loss was reported to the police. Further, physical verification of the motor vehicles revealed that only KBQ 105D was in good condition. KAV 809E, KAE 741S and KAN 312K were noted grounded due to mechanical problems. However, we could not confirm existence of KSD 223 as it was reported to be at Gatunga market police station. Log books for the five motor vehicles and the one motor cycle were availed for our audit review. Also, the Council did not update its fixed assets register which should have been used to monitor movement of assets during the year.

The County Government should ensure that fixed assets register is up dated and that the lost log book for the motor cycle is replaced.

3.29 Revenue Collection

The defunct County Council of Tharaka, was banking all the revenues collected in a Kenya Commercial Bank account up to and including 24 May 2013, although the County revenue account was supposed to have been operationalized immediately after the March 4 general election.

A review of the revenue records for the period January to June 2013 revealed the following observations:

(i) Under-banking of Revenue

A comparison of revenue collections for the period 1 January to 30 June 2013 as recorded in the cashbook with the total banking for the same period revealed an under banking of Kshs.4,668,325. This amount was not supported by any cash or cash equivalents. The total collection for the period was Kshs.15,213,642 and the total banking was Kshs.10,545,317. The analysis is as indicated here under:

Month	Collection	Banking	Variance
	Kshs	Kshs	Kshs
January	2,364,976	1,012,850	1,352,126
February	2,784,018	2,043,750	740,268
March	2,980,027	2,696,032	283,995
April	2,082,908	1,605,240	477,668
May	2,332,066	1,654,680	677,386
June	2,669,647	1,532,765	<u>1,136,882</u>
Total	<u>15,213,642</u>	<u>10,545,317</u>	<u>4,668,325</u>

The under banking should be reconciled and supporting documents provided. Also, proper systems for collection and recording of revenues should be put in place to ensure that all revenue collected is banked intact.

3.30 Other Audit Findings

(i) Doubtful Installation of LAIFORM and Training

A company was paid Kshs.495,500 in respect of installation of LAIFORM and training staff on the same vide payment voucher number 0396 of 27/02/2013 . The payment was supported with invoice number 261 of 27 February 2013. The payee was sourced through quotations and was the lowest bidder at Kshs.495,000.

The software supplied was installed in one of the computers maintained at the paying cashier's office. However, audit verification revealed the following:

- i. The quotations did not give clear specifications on what was actually to be done.
- ii. The LAIFORM allegedly installed was not functional and all the modules could not open. Also, LAIFORM software that was installed was not the standard one.
- iii. Training was allegedly undertaken but the officers who were trained had been transferred from the station as at the time of audit. It was therefore not possible to confirm that the officers were indeed trained and that value for money was realized on the expenditure.

The County Government should take action to ensure that the software operates successfully and officers are trained on LAIFORM.

(ii) Doubtful Motor Vehicle Repairs

A Garage was paid Kshs.447,625 vide payment voucher number 0393 of 26/02/2013 in respect of carrying out repairs to motor vehicle registration number KAE 741S. Audit verification revealed the following:

- i). The garage was single sourced and it was explained that it was the only Garage in Marimanti town. It was therefore not possible to have competitive bidding.
- ii). The only work ticket available documenting the journeys undertaken by the vehicle was for the month of June 2012. It was therefore not possible to tell when the vehicle was taken to the garage as the last journey in the said work ticket did not indicate this information.
- iii). The vehicle was still in the garage as at the time of audit on 12 September 2013, although the payment had been made in February, 2013.

Expenditure should only be incurred on services which have been rendered and hence this matter needs to be followed up to confirm propriety of the expenditure.

(iii) Un-supported Expenditure

A firm was paid Kshs.435,000 vide Payment voucher number 0391 of 26 February 2013 in respect of training Councilors. According to the workshop time table, the training took place between 8 and 10 January 2013. The payee was sourced after being the lowest bidder among two other bids of Kshs.486,000 and Kshs.500,000.

The total cost of Kshs.435,000 was to cater for accommodation, training materials and other expenses. However, the list of the trainees was not availed to support the expenditure. It was therefore not possible to confirm the number of councilors who attended the workshop and therefore, propriety of the same could not be ascertained.

(iii) Examination of GRF Payment Vouchers

Examination of payments vouchers for GRF account disclosed that an expenditure totalling Kshs.418,250 was paid on diverse dated as shown below but documents such as invoices, LPOs, delivery notes or workshops invitation letters etc were not attached in support of the payments:-

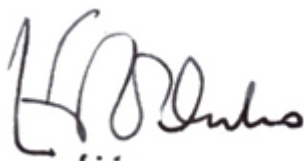
Payee	Item	Cheq	Date	Amount (Kshs.)
Various Officers	Travelling	-	18/3/13	55,000

Michael Kanyi	Subsistence GTI	003946	27/2/13	121,000
Salkan Hotel	Conference & Food	003970	15/4/13	89,750
Various Officers	Travelling	-	11/4/13	51,000
Various Officers	Travelling	-	17/6/13	54,000
Officers	Travelling		17/6/13	<u>47,500</u>
Total				<u>418,250</u>

All payments must be initiated by the Head of Department in liaison with the Treasurer and must be fully supported by documentary evidence.

3.31 Conclusion

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



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

26 February, 2014