REPUBLIC OF KENYA

KENYA NATIONAL AUDIT OFFICE

REPORT

OF

THE AUDITOR–GENERAL

ON THE

FINANCIAL OPERATIONS

OF

THE COUNTY GOVERNMENT OF KIAMBU AND ITS DEFUNCT LOCAL AUTHORITIES

FOR THE PERIOD I JANUARY TO 30 JUNE 2013

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

EXECUTIVE SUMMARY

1.0 INTRODUCTION

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 Further, the County Government Act, 2012 Section 134 (1) repealed the Local Government Act, Cap 265, and thus effectively dissolving all the 175 Local Authorities and creating 47 County Governments.

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

1.1 Audit objectives

The audit covered the Kiambu County Executive, County Assembly, and former Town Council of Kikuyu, former Town Council of Karuri, former Kiambu County Council, former Municipal Council of Limuru, former Municipal Council of Ruiru, former Municipal Council of Kiambu, former Municipal Council of Thika and former Thika County Council transactions for the period 1 January to 30 June, 2013 and took into account transactions before, during and after the transition period. The terms of reference set for the audit included verifications and confirmations of transactions in respect to but not limited to the following areas:

- Taking over of the former Local Authorities
- Cash and bank balances
- Current debtors and suppliers balances
- Motor vehicles and office equipment
- IPPD Payroll and establishment
- ICT and G-pay system
- Recurrent and development expenditure items
- Procurement and procurement procedures

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 timeline.

2.0 SUMMARY OF KEY FINDINGS

2.1 Failure to take Over the Assets and Liabilities of the Defunct Local Authorities

This was not done as instructed by the Ministry of Local Government Circular Ref. No. MLG/1333/TY/ (52) dated 18 February 2013 which had directed the Clerks, being the Chief Officers of the Local Authorities to ensure there was proper handing over to the incoming County Government and to ensure that they also prepared statements of Assets and Liabilities as at 20 February 2013. A handing over report should have been prepared by the Transition Authority so that what was transferred from the defunct Local Authorities to the County Government could be determined and properly accounted for.

2.2 Bank Accounts

2.2.1 Closure and Transfer of Bank Accounts

The defunct Local Authorities did not close their bank accounts as at 28 February 2013 as had been directed by the Transition Authority guidelines given vide letter Ref.MOF/IFMIS/1/41 dated 7 March 2013. The defunct Local Authorities continued operating most of the accounts up to 2 July 2013 contrary to the directive by the Transition Authority. The total amount transferred from the eight (8) defunct Local Authorities to the County Government operations account was Kshs.281,567,386 as shown below;

1.	Town Council of Kikuyu	24,376,264
2.	Town Council of Karura	4,560,371
3.	Kiambu County Council	48,470,799
4.	Municipal Council of Limuru	2,663,812
5.	Municipal Council of Ruiru	16,488,677
6.	Municipal Council of Kiambu	528,388
7.	Municipal Council of Thika	18,812,228
8.	County Council of Thika	5,666,847
9.	**Total**	**281,567,386**

We were however not able to determine the correctness of the amounts held in the accounts of the defunct Local Authorities prior to the transfers since four (4) out of the eight (8) defunct Local Authorities did not prepare the monthly bank reconciliations and there was also no evidence of any cash surveys done contrary to Sections 5.9.2 and 5.9.9 of the Financial Regulations that require that bank reconciliations be done once a month and a board of survey be constituted annually to examine and verify the cash on hand balances.

Bank reconciliation statements should be done on a monthly basis and cash survey done at the closure of every financial year to avoid any misappropriation.

2.3 Assets Status

a) Debtors

Transition Authority Circular Ref. No. TA/2/5 dated 9 January 2013, required the Clerks of the Local Authorities to carry out an inventory of all assets, debts and liabilities including movable and immovable assets. All the eight (8) defunct Local Authorities did not maintain individual debtors' ledgers. It was therefore not possible to confirm the completeness and accuracy of the balances provided. Further, there was no evidence in the form of confirmations or correspondences to support the debtors balance of Kshs.1,733,010,336 transferred from the defunct Local Authorities out of which Kshs.1,463,562,822 (84.45 %) relates to Thika Municipal Council. In addition, two (2) defunct Local Authorities had long outstanding imprests totalling Kshs.3,276,109. Further, the debtors' balances were not consolidated at the County Head Office. Individual debtors' ledgers should have been maintained and the long outstanding imprests recovered from the staff through their payrolls. Debtors to be transferred to the County Government should be verified and consolidated in the County Government books after confirming their correctness.

b) Immovable Assets

A fixed assets register was not maintained and five hundred and ninety three (593) parcels of land of undetermined value as shown below and within the jurisdiction of the County Government did not have title deeds.

1. Town Council of Kikuyu	33
2. Town Council of Karuri	70
3. Kiambu Country Council	23
4. Municipal Council of Limuru	65
5. Municipal Council of Ruiru	145
6. Municipal Council of Kiaibu	49
7. Municipal Council of Thika	194
8. County Council of Thika	14
Total	**593**

The County Government should maintain a fixed assets register to ensure proper accountability of all immovable assets. The County Government should also have enhance the process of securing all the land by valuing and acquiring title deeds for all the parcels of land under their jurisdiction in order to safeguard the County assets.

c) Movable Assets

During the period under review, the County procured 9 motor vehicles for its County Executive Officers at Kshs.47,700,999. These vehicles were however fitted with private number plates instead of green number plates. This is contrary to Office of the President circular OP/DAB 9/21/2A/LII dated 24 March 2005. Authority for changing the number plates should be sought from the relevant authorities for purpose of proper identification of the vehicles as County Government vehicles.

2.4 Creditors and Other Liabilities

Individual Creditors ledgers were not maintained by the defunct Local Authorities. Although balances of liabilities were given in respect of LAPTRUST, payment in lieu of leave, suppliers and contractors and pending bills, it was not possible to confirm the completeness and accuracy of the same. The balance for creditors and other liabilities as at 30 June 2013 was indicated as Kshs.658,021,233 out of which Kshs.148,400,551 were disputed balances that arose from an actuarial valuation of LAPTRUST. Further, deductions amounting to Kshs.29,766,362 had not been remitted as at 30 June 2013. A creditor's register/ledger should be opened and maintained at all times. In addition the liabilities transferred to the County Government should be verified and confirmed before being adopted as the liabilities of the County Government.

2.5 Revenue Collection

During the period 1 March to 30 June 2013 the defunct Local Authorities collected revenue totaling Kshs.436,913,334 through LAIFORMS as shown below;

1. Town Council of Karuri	17,767,082
2. Town Council of Kikuyu	47,699,949
3. County Council of Kiambu	45,580,171
4. Municipal Council of Limuru	47,890,900
5. Municipal Council of Ruiru	54,778,091
6. Municipal Council of Kiambu	38,631,925
7. Municipal Council of Thika	118,744,139
8. County Council of Thika	65,821,127
Total	**436,913,384**

Out of this amount Kshs.30,165,596 was not banked promptly as required by financial regulations and Kshs.2,636,183 was not banked at all and instead used directly for operations. Further, the banking slips were not captured in the banking module in two (2) Sub-Counties.

All revenue should be banked promptly and intact as required by Financial Regulations.

2.6 Staff/Personnel Records

Examination of the staff payrolls/IPPD and LAIFOMS indicated that 151 staff were captured in the IPPD but were not appearing in the LAIFOMS. Further, ten (10) employees were recruited when they were under age with some being reflected as 0 years and 1 year old. In addition, the County Headquarters and Assembly engaged a varying number of casual staff to serve in the Governor's and Deputy Governor's offices and paid Kshs.3,207,000 between April and June 2013. No evidence was provided to show that the recruitment process used during their engagement was in accordance with the existing regulations. The County Headquarters and Assembly should fill the vacant positions or regularize the appointment of the casual workers. In addition, the County Government should also investigate the integrity of the 151 staff data in IPPD and not in LAIFOMS and also investigate the issue of the employees engaged while under age and also do staff rationalization exercise.

2.7 Non Compliance with Public Procurement and Disposal Act, 2005 and Regulations, 2006

The Public Procurement and Disposal Regulations, 2006 requires that every procuring entity prepares a procurement plan and also constitutes opening, evaluation and Tender committees for quotations/bids which are independent from each other. However, the same officers served in all the committees. Further, there were no procurement plans prepared. In addition, most payments for purchases in all the Local Authorities were not supported by inspection and acceptance committees' reports hence it was not possible to confirm whether the County Government and its Sub-Counties received value for money spent on the goods procured. Further, the procurement process accommodation and method for hire of conference facilities procured by the County Assembly of Kshs.2,107,000, transport services of Kshs.30,000 and resource persons costs of Kshs.60,000 respectively was not disclosed. The programmes of the workshops were also not availed for audit verification.

There should be adherence to the requirements of the Public Procurement and Disposal Act, 2005 and Regulations 2006 and also avail documents in support of the procurements noted.

2.8 Internal Control

The Local Authority Financial Management Regulations require every Council to establish an audit committee for the purpose of carrying out in depth reviews of internal control and the internal audit process. In addition, the regulations require an independent internal audit department to be set up and report to the audit committee. However, during the period under review, the internal audit function was inactive as no audit reports were produced. Further, the internal audit department was manned by only one officer in most defunct Local Authorities. Lack of segregation of duties in the finance department was also evident.

The internal audit department should be facilitated with resources to improve its capacity to carry out effective audits and the new audit committee also be facilitated to deliver on its mandate. Further, additional officers should be deployed in the finance department to enhance segregation of duties as a component of good internal control.

2.9 Expenditure

Letter Ref. No COB/TA/001/1 from the Office of the Controller of Budget dated 8 May 2013 required the Local Authorities to avoid utilizing funds from the old accounts and to confirm that expenditure complied with the budget and was authorized by County

Assembly as per the County Appropriation Act and Public Finance Management Act, 2012. However, the County Executive and the eight (8) defunct Local Authorities continued to incur expenditure totalling Kshs.1,058,348,332 without the approval of the County Assembly.

Expenditure at the County Assembly included a payment for sitting allowances of Kshs.5,000 per sitting per member totaling to Kshs.840,000 to members of the county assembly in addition to night outs of Kshs.8,000 per session while attending a workshop at La Mada Hotel. In addition, out of pocket allowances amounting to Kshs.657,000 was paid during an induction workshop for 73 members of the county assembly and staff for 3 days at Kshs.3,000. However, the attendance register availed to support the payment indicated that participants for the 3 days totalled 119 out of the possible 219 hence 100 participants were not accounted for resulting to unsupported payment of Kshs.300,000.
All expenditure incurred must be approved by the relevant authority and properly accounted for with supporting documents.

2.10 IFMIS/G-PAY

IFMIS/G-PAY had not been implemented in all the sub-counties except in the County Headquarters and LAIFOMS was still in operation for revenue collection. However, the IFMIS encountered frequent breakdowns and could not process transactions from beginning to end. The two systems of IFMIS and G-pay should be installed as envisaged to enhance accountability.

CONCLUSION

The foregoing observations clearly indicate that the process of taking over of assets and liabilities, including staff of the former Council was not properly handled due to apparent lack of necessary arrangements by officials of the Transition Authority who had the responsibility to ensure a smooth and seamless transition process. The County Government should however, ensure full control of functions, including revenue collection, recording and proper accounting of the same while awaiting guidance from the National Treasury on the accounting and reporting systems to be developed by the Public Sector Accounting Standards Board in accordance with Section 194 of the Public Finance Management Act, 2012. Expenditure should be incurred in accordance with requirements of the Public Finance Management Act, 2012 and for the benefit of the tax payers. Further, the County Assembly, being the watch dog should ensure proper operations within the County and also take necessary action where there are deviations.

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

Edward R.O. Ouko, CBS
<u>AUDITOR-GENERAL</u>

Nairobi

6 March 2014

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

3.0 KIAMBU COUNTY EXECUTIVE

3.1 Property, Plant and Equipment

Section 1 (f) and (g) of the Local Authorities Financial Management Regulations requires each local authority to properly register, acquire titles, value and maintain a fixed assets register among other records. Further, regulation M. 2A (3) states that the assets shall as far as possible be marked and numbered. However, the County Government:

1) Had not opened a fixed assets register as at the time of audit.

2) Had changed the number plates for 9 motor vehicles from green to private without authority from the relevant authorities.

3) Did not have records for all assets falling under the County's jurisdiction.

4) Five hundred and ninety four (594) parcels of land falling under the County's jurisdiction did not have title documents.

5) No formal decision had been made on the assets in Gatanga and Kakuzi which were formally part of Thika County Council but are now part of Murang'a County after the County Government Act, 2012 was effected.

Recommendations

1. The office should open and maintain a fixed assets register for all assets falling under the County's jurisdiction in order to safeguard the County fixed assets.

2. Authority for changing the number plates should be sought from the relevant authorities and availed for audit verification and confirmation.

3. The County Government should enhance/commence the process of acquiring title deeds for all the land under its jurisdiction.

4. The County should make a formal decision on the assets in Gatanga and Kakuzi which were formally part of Thika County Council but are now part of Murang'a County after the County Government Act, 2012 so as to have the correct number of assets within the County.

3.2 Non Compliance with Public Procurement and Disposal Act, 2005 and Regulation 2006

The Public Procurement and Disposal Act, 2006 requires that every procuring entity prepares a procurement plan and also constitutes opening, evaluation and Tender committees for quotations/bids which are independent from each other. However, the the executive committee member for public works was getting involved in the procurement of goods and services as opposed to dealing with policy matters in the department. Further, there was no procurement plan prepared.

Recommendation

The procurement process should be carried out by independent committees in future. The County should also prepare a procurement plan.

3.3 Expenditure

Letter Ref. No COB/TA/001/1 from the Office of the Controller of Budget dated 8 May 2013 required the Local Authorities to avoid utilizing funds from the old accounts and to confirm that expenditure complied with the budget and was authorized by County Assembly as per the County Appropriation Act and Public Finance Management Act, 2012. However, the County Government continued to incur expenditure totalling Kshs.529,174,166 without the approval of the County Assembly contrary. Further, the County Government had not opened a general ledger and the relevant sub-ledgers for posting expenditure.

Recommendation

The County Government should take the initiative to regularize the expenditure incurred from 1 March 2013 to 30 June 2013 by asking the County Assembly to approve the same retrospectively and should also open a general ledger and the relevant sub-ledgers for posting expenditure and for proper accountability.

3.4 Internal Control

Leading practices provide ``that internal control helps to provide reasonable assurance that the organization adheres to laws, regulations and management directives. It promotes orderly, economical, efficient and effective operations. It also safeguards resources against fraud, waste, abuse and mismanagement through timely reporting''. Audit review revealed that:

1) The internal audit department is manned by only a few officers who may not be able to carry out the internal audit mandate effectively. In addition, the internal audit function was not active during the period under review since no reports were produced during that period.

2) Lack of segregation of duties in the finance department was evident.

3) The audit committee set up by the County Assembly did not avail documented and approved Terms of Reference (TOR).

4) The internal control system lacks a risk management practice/policy.

5) The information technology (IT) environment lacks an IT policy.

Recommendations

1) The internal audit department should be facilitated with resources to improve its capacity to carry out effective audits.

2) Segregation of duties in the finance department should be done.

3) The audit committee set up by the County Assembly should be facilitated properly, and given Terms of Reference (TOR).

4) The management should put in place mechanisms for risk and performance management.

5) The management should put in place an IT policy.

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

IFMIS/Ministry of Finance has connected Kiambu County Government to the Integrated Financial Management Information System (IFMIS). Although IFMIS has been implemented at the County headquarters, it has been experiencing breakdowns such that it is unable to complete transactions end to end (from start to finish). Further, the G-PAY system had not been installed at the time of audit.

Recommendations

1) The problems facing IFMIS should be dealt with to enable it to process transactions from start to finish for proper audit trail.

2) The G-pay system should be installed urgently to enhance accountability.

3.6 Human Resource and Other Challenges

1) The County Government continued to pay the salaries for staff in Gatanga and Kakuzi numbering 14 and 12 respectively who were formerly in Thika District but have been transferred to Murang'a County.

2) The County Government engaged casual workers continuously since May 2013 up to the time of the audit which is beyond the time allowed by the law of not more than three months.

3) Staff transferred from the local authorities have accumulated excessive leave days beyond the 60 days allowed by collective bargaining agreements (CBAs). The number of days were not also supported by the relevant documents.

4) The consolidated staff numbers in the payroll summaries appearing in the June 2013 payroll of 544 differed with the aggregated number in the LAIFOMS for the councils 521 in May 2013 by a net of 23 staff members which was not explained.

5) There is lack of staff with professional skills at the County headquarters.

6) Reporting structure for staff in the County is not very clear which could lead to misunderstanding and poor service delivery.

Recommendations

1) The County Government should transfer payment of staff salaries for Gatanga and Kakuzi sub-counties to Murang'a County.

2) The law on employment of casual workers should be followed to avoid litigation.

3) The leave days transferred from the local authorities should be verified before being accepted as correct, and the County Government should ensure that leave carried forward is within the CBA.

4) The County Government should investigate and provide explanation for the differences noted in the payroll for proper accountability.

5) Staff with the required professional skills should be hired..

6) The reporting structure for staff should be documented and made clear in a well-structured organization chart.

4.0 COUNTY ASSEMBLY

4.1 IPPD Payroll for County Assembly

The Government's policy on hiring of casual workers does not allow continuous engagement for more than three months. However, the County Assembly has hired five casual workers at senior positions since May 2013 up to the time of audit at salaries of Kshs.50,000 but no explanation was provided for the reasons why the positions could not be filled substantively and how their pay was arrived at.

Recommendation

The County Government should fill the vacant positions immediately through competitive recruitment to avoid litigation.

4.2 Assets Management

Section 149(20) of the Public Financial Management Act, 2012 requires that "the respective County Government entity has adequate systems and processes in place including an asset register that is current and accurate". However, the County Assembly took over office equipments, furniture & fittings and motor vehicles without following proper procedures. Further, the Assembly does not have a fixed assets register or any other record of the items taken over.

Recommendation

A listing of all assets transferred to the County Assembly should be prepared and a fixed assets register should be maintained for proper accountability of the assets belonging to the County Assembly.

4.3 Repair and Maintenance Costs of Assets

The County Assembly incurred repair and maintenance costs but no ledger was maintained at the Assembly offices and neither are copies of payment vouchers retained by the County Assembly.

Recommendation

A ledger to record repair costs should be opened and maintained at all times for proper control of the repairs.

4.4 Installation of Integrated Financial Management Information System and G-PAY

The County Assembly management failed to install IFMIS and G-pay systems at the County Assembly offices as required by the Article 12 of the Public Finance Management (PFM) Act, 2012.

Recommendation

The two systems of IFMIS and G-pay should be installed to enhance accountability and efficiency.

4.5 Non Compliance with Public Procurement and Disposal Act, 2005 and Regulations, 2006

The Public Procurement and Disposal Regulations, 2006 requires that procurement of goods and services be done competitively. However, the procurement method used to procure accommodation and conference facilities at Kshs.2,107.000, hire of transport services of Kshs.30,000 and resource persons of Kshs.60,000 was not disclosed. The programmes for the workshops were also not availed for audit verification.

There should be adherence to the requirements of the Public Procurement and Disposal Act, 2005 and Regulations 2006 and also avail the supporting documents for the transactions.

4.6 Expenditure

The County Assembly Appropriation Act, 2013 and Public Finance Management Act, 2012 requires that all expenditures be accounted for. However, the County Assembly made payments for sitting allowances at Kshs.5,000 per sitting totaling to Kshs.840,000 to members of the County Assembly in addition to night outs of Kshs.8,000 per session while attending a workshop. No policy document to support the propriety of the allowances was availed for audit verification. In addition, out of pocket allowances amounting to Kshs.657,000 was paid during an induction workshop for 73 members of the County Assembly and staff for 3 days at Kshs.3,000 each per day. However, the attendance register availed to support the payment indicated that participants for the 3 days were 119 out of the possible 219 hence 100 participants were not accounted for resulting to an unsupported payment of Kshs.300,000.

Recommendation

The unsupported payment of Kshs.300,000 should be explained and properly accounted for. Further, all expenses borne out of public funds should always be supported by the relevant documentation.

5.0 TOWN COUNCIL OF KIKUYU/KIKUYU SUB-COUNTY

5.1 Compliance with Circulars

The ministry of Local Government Circular reference no. MLG/1333/TY/52 dated 18 February 2013 required all town clerks to prepare a statement of assets and liabilities as at 28 February 2013. In addition, letter reference no. MOF/IFMIS/1/41 dated 7 March 2013 instructed the previous local authorities to freeze their bank accounts with the exception of the receiving accounts. However, did not prepare and submit a statement of assets and liabilities to the Auditor-General for audit and also continued to operate its bank accounts up to 20 June 2013 when Kshs.24,376,264 was formally transferred to the new account opened by the County Government. Further, no bank reconciliations were done to confirm these balances.

Recommendation

The management should in future adhere to instructions given by authorities and should ensure that bank reconciliations are done on a monthly basis.

5.2 Property, Plant and Equipment

Section 1 (f) and (g) of the Local Authorities Financial Management Regulations (LAFMR) requires each Local Authority to properly register, acquire titles, value and maintain a fixed assets register among other records. Further, regulation M. 2A (3) states that the assets shall as far as possible be marked and numbered. However, the local authority did not maintain a fixed assets register. Further, the local authority had not valued, marked and numbered its property, plant and equipment as at 30 June 2013. In addition, the management had not acquired title deeds for 33 parcels of land under its jurisdiction as at 30 June 2013.

Recommendations

1) The sub-county should open an assets register, in order to safeguard the County assets.

2) The sub-county should have the assets valued, marked and numbered.

3) The County Government should commence the process of acquiring title deeds for all the land under its jurisdiction without further delay for proper identification and accountability.

5.3 Creditors

The Treasurers' manual provides that each Council should maintain a set of accounting registers and records that enable preparation of accurate financial statements. However, the Council did not maintain a creditors register or ledger. Further, the Council owed National Social Security Fund (NSSF) and Laptrust Kshs.5,500,000 and Kshs.18,916,482 respectively as at 30 June 2013. Although the Council had disputed the liabilities, it entered into an agreement with Laptrust on how the related debt would be cleared within 7 years starting July 2013 and had already paid Kshs.3,000,000 to NSSF.

Recommendation

A creditor's register/ledger should be opened and maintained at all times. In addition the liabilities transferred to the County Government should be verified and cleaned where necessary before being adopted and the legal position of the disputed liabilities should be obtained and action on the same taken immediately to safeguard the funds of the County Government.

5.4 Non Compliance with Public Procurement and Disposal Act, 2005 and Regulations 2006

The Public Procurement and Disposal Regulations, 2006 requires that every procuring entity prepares a procurement plan and also constitutes opening, evaluation and tender committees for quotations/bids which are independent from each other. However, the same officers served in almost all the committees when procuring goods and services. Further, there was no procurement plan.

Recommendation

The procurement process should be carried out by independent committees. Further, there should be a procurement plan in place.

5.5 Bank Balances

Letters Ref. No. TA/7/5/ (20) dated 12 February 2013 and MOF/IFMIS/41 dated 7 March 2013 instructed all local authorities to freeze all their bank accounts except for the receiving bank account. However, the management of the Council continued to operate its bank accounts up to 20 June 2013 when they were closed and balances totaling Kshs.24,376,246 transferred to an account which was opened by the County Government head office as directed vide letter ref no. KCG/FIN/19/VOL.15 dated 3 June 2013. In addition, the bank balances transferred to the new account, though supported by bank balances were not supported by cash books. Further, the monthly bank reconciliation statements were also not prepared.

Recommendation

Cash books should be maintained and bank reconciliation should be done on a monthly basis for verification of the cash balances to avoid any misappropriations.

5.6 Internal Control

The Local Authority Financial Management Regulations require every council to establish an audit committee for the purpose of carrying out in depth reviews of internal control and the internal audit process. In addition, the regulations require an independent internal audit department to be set up and report to the audit committee. However, internal audit function was not active during the period under review since no reports were produced during that period. In addition, the internal audit department is manned by only one officer. There was evidence of lack of segregation of duties in the finance department.

Recommendation

The internal audit department should be facilitated with resources to improve its capacity to carry out effective audits and enough officers should be deployed to the finance department to enhance segregation of duties to avoid the performance of sensitive tasks by an individual which might lead to misappropriation of funds or other assets of the County.

5.7 Revenue

Letter Ref. No. MLG/1328/A/ (3) dated 7 March 2013 instructed clerks to the local authorities to ensure that all revenue collected during the transition period is banked intact as required by the law. However, there was no prompt and intact banking of revenue. Short banking of Kshs.2,636,183 as at 30 June 2013 was noted which was however not explained. Further, a manual revenue cashbook was not maintained thus exposing the funds of the Council to misapplication or even theft.

Recommendation

The short banking of Kshs.2,636,183 should be explained and banked immediately and disciplinary action meted on the officers concerned and further, a manual revenue cashbook should be maintained.

5.8 Debtors

5.8.1 Sundry Debtors

Transition Authority Circular Ref. No. TA/2/5 dated 9 January 2013, required the Clerks of Local Authorities to carry out an inventory of all assets, debts and liabilities including movable and immovable assets. However, the Council did not maintain a automated system on debtors' management and the debtors balance as at 30 June 2013 of Kshs.6,854,012 was not supported by an aging analysis schedule. Further, there was no correspondences file with customers for evidence of completeness/correctness of the debtors figure thus exposing the accounts to misstatement.

5.9 Staff Imprest

The defunct Local Authority had long outstanding imprest totaling to Kshs.2,971,810.

Recommendation

The Council should maintain an automated system on debtors' management and the debtors balance of Kshs.6,854,012 should be supported by a schedule. Further, a correspondences file with customers' information should be kept for audit verification and confirmation of the accuracy and completeness of the debtors.

The long outstanding imprests should be recovered from the staff through their payrolls.

5.10 Expenditure

The County Assembly Appropriation Act, 2013 and Public Finance Management Act, 2012 required that all expenditures be appropriated by the County Assembly. However, the Local Authority continued to incur expenditure totalling Kshs.62,862,615 without the approval of the County Assembly.

Recommendation

The County Government should ensure any expenditure incurred is approved by relevant authorities.

6.0 TOWN COUNCIL OF KARURI/KIAMBAA SUB-COUNTY

6.1 Compliance with Circulars

6.1.1 Statement of Assets and Liabilities

Circular ref: MLG/1333/TY/ (52) dated 18 February 2013 required all town clerks to prepare a statement of assets and liabilities as at 28 February 2013. However, Local Authority did not prepare and submit a statement of assets and liabilities to the Auditor-General for audit.

Recommendation

The management should in future comply with the directives issued by authorities.

6.2 Closure of Bank Accounts

Letters Ref No. TA/7/5/ (20) dated 12 February 2013 and MOF/IFMIS/41 dated 7 March 2013 instructed all local authorities to freeze all their bank accounts except for the receiving bank account. However, the Local Authority continued to operate its bank accounts up to 20 June 2013 when the amount of Kshs.4,560,371 was transferred in disregard of the directive.

Further, bank reconciliation statements were not produced for audit verification.

Recommendation

The management should in future adhere to the directives issued by various authorities and Bank reconciliations should be done on a monthly basis and availed for audit review.

6.3 Property, Plant and Equipment

Section 1 (f) and (g) of the Local Authorities Financial Management Regulations (LAFMR) and Section 149 (20) of the Public Financial Management Act, 2012 requires each local authority/government entity to keep a property register, acquire titles, value and maintain a fixed assets register among other records. Further, regulation M. 2A (3) states that the assets shall as far as possible be marked and numbered. However, the Council did not maintain a fixed assets register. The Council had not marked and numbered its property, plant and equipment as at 30 June 2013. Further, the Council had not acquired title deeds for seventy (70) parcels of land under its jurisdiction as at 30 June 2013. The existence of motor vehicle KBQ 121D, Toyota Hilux, could not be physically verified at the Council's premises and on enquiry the Council indicated that it was taken over by County Government headquarters. However, no handover report was availed for audit verification.

Recommendations

1) The Sub-County should open a fixed assets register in order to safeguard the County assets.

2) The Sub-County should have the assets numbered and marked to confirm that these truly belong to the County.

3) The County Government should commence the process of acquiring title deeds for all the land under its jurisdiction.

4) The management should regularize the transfer of the motor vehicle by writing a handing/taking over report in order to determine where the same belongs.

6.4 Debtors

Transition Authority Circular Ref. No. TA/2/5 dated 9 January 2013, required the Clerks of Local Authorities to carry out an inventory of all assets, debts and liabilities including movable and immovable assets. However, the council did not maintain an automated system on debtors' management and the debtors balance as at 30 June 2013 of Kshs.2,370,052 was not supported by an aging analysis schedule. Further, there was no correspondences file with customers for evidence of completeness/correctness of the debtors balances.

Recommendation

The Council should maintain an automated system on debtors' management and also the debtors balance of Kshs.2,370,052 should be supported by an aging analysis schedule. Further, a correspondences file with customers' information should be kept for audit verification and proper accountability of the debtors balances.

6.5 Creditors

Transition Authority Circular Ref. No. TA/2/5 dated 9 January 2013, required the Clerks of Local Authorities to take an inventory of all assets, debts and liabilities including movable and immovable assets. However, the outstanding staff salary arrears balance of Kshs.23,565,012 as at 30 June 2013 included accumulated leave days which amounted to Kshs.19,065,517. These arrears are against Clause 22(e) of the Collective Bargaining Agreement (CBA) which states that Leave may be accumulated in excess of 60 working days provided that half of the annual leave entitlement is taken in each year or otherwise forfeited; and that any leave accumulated in excess of 60 working days stated above shall be forfeited unless in specific cases where the Council otherwise resolves. A resolution to that effect was not availed for audit verification. Further, the Sub-County did not maintain a creditors' ledger.

Recommendation

All members of staff should be encouraged to take their leave entitlement as and when they fall due through adequate staff planning and not accumulate the leave and the Sub-County should maintain a complete individual creditor’s and general ledger for production of reliable creditors balances.

6.6 Revenue

The Sub-County management failed to maintain a revenue cash book and the LAIFOM system used by the other Local Authorities for revenue collection and instead used excel spreadsheets for the purpose.

Recommendation

The County Government should put in place a strong internal control system to ensure that there is proper accountability at every stage in the revenue collection cycle and also maintain revenue cash book and LAIFOMS in order to produce reliable cash balances.

6.7 Expenditure

The County Assembly Appropriation Act, 2013 and Public Finance Management Act, 2012 required that all expenditures be appropriated by the County Assembly. However, the Local Authority continued to incur expenditure totalling Kshs.43,280,004 without the approval of the County Assembly.

Recommendation

The County Government should ensure any expenditure incurred is approved by relevant authorities.

7.0 KIAMBU COUNTY COUNCIL/GITHUNGURI SUB-COUNTY

7.1 Compliance with Circulars

Circular reference no. MLG/1333/TY/52 dated 18 February 2013 required all town clerks to prepare a statement of assets and liabilities as at 28 February 2013. In addition, letter reference no. MOF/IFMIS/1/41 dated 7 March 2013 instructed the previous local authorities to freeze their bank accounts with the exception of the receiving accounts. However, the Council did not prepare and submit a statement of assets and liabilities to the Auditor-General for audit and continued to operate its bank accounts up to 20 June 2013.

Recommendation

The management should adhere to instructions issued by relevant authorities.

7.2 Property, Plant and Equipment

Section 1 (f) and (g) of the Local Authorities Financial Management Regulations (LAFMR) requires each local authority to properly register, acquire titles, value and maintain a fixed assets register among other records. Further, regulation M. 2A (3) states that the assets shall as far as possible be marked and numbered. The local authority did not maintain a fixed assets register and the assets were not marked and were also not valued as at 30 June 2013. Further, the management had not acquired title deeds for twenty three (23) parcels of land under its jurisdiction as at 30 June 2013.

Recommendation

The Sub-County should open a fixed assets register and have all the assets numbered, marked and valued to determine their fair value and also commence the process of acquiring title deeds for all the land under its jurisdiction.

7.3 Creditors

The Treasurers' manual provides that each Council should maintain a set of accounting registers and records that enable preparation of accurate financial statements. However, the Council did not maintain a creditors register or ledger thus the amount of Kshs.203,487,711 transferred to the County Government could not be verified.

Recommendation

A creditor's register/ledger should be maintained, updated and reconciliations carried out to ensure accuracy of the balances at all times.

7.4 Non Compliance with Public Procurement and Disposal Regulations

The Public Procurement and Disposal Regulations, 2006 requires that every procuring entity constitutes opening, evaluation and tender committees for quotations/bids which are independent from each other. However, the same officers served in almost all the committees when procuring goods and services.

Recommendation

The procurement process should be carried out by independent committees.

7.5 Bank Balances

Letter Ref No. TA/7/5/ (20) dated 12 February 2013 and MOF/IFMIS/41 dated 7 March 2013 instructed all local authorities to freeze all their bank accounts except for the receiving bank account. However, the Council continued to operate its bank accounts up to 20 June 2013 when they were closed and balances totaling Kshs.48,470,799 transferred to an account which was opened by the headquarters as directed vide letter ref no. KCG/FIN/19/VOL.15 dated 3 June 2013. The bank balances totaling Kshs.48,470,799 transferred to the new account, though supported by bank statements were however, not supported by bank reconciliation statements and cash books.

Recommendation

All bank accounts should have a receipts and payments cash book and bank reconciliation statements be done on a monthly basis to prevent the funds from loss or even theft and to also enhance the integrity of the balances.

7.6 Internal Control

The Local Authority Financial Management Regulations require every Council to establish an audit committee for the purpose of carrying out in depth reviews of internal control and the internal audit process. In addition, the regulations require an independent internal audit department to be set up and report to the audit committee. However, internal audit function was not active during the period under review since no reports were produced during that period. Further, the internal audit department is manned by only one officer. Lack of segregation of duties in the finance department was also evident.

Recommendation

The internal audit department should be facilitated with resources to improve its capacity to carry out effective audits and the new audit committee also be facilitated to deliver on its mandate. Further, additional officers should be deployed to the finance department to enhance segregation of duties as a component of good internal control.

7.7 Revenue

Letter Ref No. MLG/1328/A/ (3) dated 7 March 2013 instructed clerks to the local authorities to ensure that all revenue collected during the transition period is banked intact as required by the law. However, revenue amounting to Kshs.5,554,986 was banked late. Further, a manual revenue cashbook was not maintained.

Recommendation

The Sub-County management should ensure that revenue is banked intact in future in order to safeguard the revenue from theft or loss and also ensure that a manual revenue cashbook is maintained for proper accountability of the revenue collected and banked.

7.8 Debtors

Transition Authority Circular Ref. No. TA/2/5 dated 9 January 2013, required the Clerks of Local Authorities to carry out an inventory of all assets, debts and liabilities including movable and immovable assets. However, the Council did not maintain an automated system on debtors' management and the debtors balance as at 30 June

2013 of Kshs.71,538,716 was not supported by an aging analysis schedule. Further, there was no correspondences file with customers for evidence of completeness/correctness of the balances.

Recommendation

The Council should maintain an automated system or an appropriate system for recording debtors to ensure accuracy of records and the debtors balance of Kshs.71,538,716 should be supported by an aging analysis schedule. Also a correspondences file with customers' information should be kept to be able to track the collections.

7.9 Expenditure

The County Assembly Appropriation Act, 2013 and Public Finance Management Act, 2012 required that all expenditures be appropriated by the County Assembly. However, the Council continued to incur expenditure totalling Kshs.69,287,192 without the approval of the County Assembly.

Recommendation

The County Government should ensure any expenditure incurred is approved by relevant authorities.

8.0 MUNICIPAL COUNCIL OF LIMURU/LIMURU SUB-COUNTY

8.1 Compliance with Circulars

Circular ref; MLG/1333/TY/52 dated 18 February 2013 required all town clerks to prepare a statement of assets and liabilities as at 28 February 2013. In addition, letter ref no MOF/IFMIS/1/41 dated 7 March 2013 instructed the previous local authorities to freeze their bank accounts with the exception of the receiving accounts. However, the Council did not prepare and submit a statement of assets and liabilities to the Auditor-General for audit. Further, it continued to operate its bank accounts up to 20 June 2013 and also continued to incur expenditure totaling to Kshs.39,317.204 without the approval of the County Assembly contrary to the Public Finance Management Act, 2012.

Recommendation

The County Government should confirm the balances transferred from the Local Authority.

8.2 Property, Plant and Equipment

Section 1 (f) and (g) of the Local Authorities Financial Management Regulations (LAFMR) and Section 149 (20) of the Public Financial Management Act, 2012 requires each local authority/government entity to properly register, acquire titles, value and maintain a fixed assets register among other records. Further, regulation M. 2A (3) states that the assets shall as far as possible be marked and numbered. However, sixty five (65) parcels of land out of sixty six parcels valued at Kshs.355,794,000 as at 30 June 2013, had no title documents. Further, the Council had not valued, marked and numbered its property, plant and equipment as at 30 June 2013. The repairs and maintenance expenditure as at 28 February 2013 and 30 June 2013 reflects total expenditure of Kshs.3,300,000 and Kshs.3,408,356.00 respectively. However it was not analysed into the various components. In addition, motor vehicle registration no. KBG 225C was released to the County Assembly. However, other than a release letter from the Sub-County (Council), there was no acknowledgement letter to confirm receipt from the County Assembly.

Recommendations

1) The County Government should commence the process of acquiring title deeds for all the land under its jurisdiction.

2) The property, plant and equipment should be valued, marked and numbered to confirm their fair values.

3) The repairs and maintenance expenditure should be analysed into the various components to control the expenditure by components.

4) The management should regularize the transfer of the motor vehicle by writing a handing/taking over report to prevent any loss or theft of the same.

8.3 Debtors

Transition Authority Circular Ref. No. TA/2/5 dated 9 January 2013, required the Clerks of Local Authorities to carry out an inventory of all assets, debts and liabilities including movable and immovable assets. However, the automated system on debtors' management could not produce a report as at 30 June 2013 because of changing from manual to LAIFOM system. Further, the debtors balances as at 31 December 2012, 28 February 2013 and 30 June 2013 of Kshs.1,911,685, Kshs.23,993,801 and Kshs.32,755,242 respectively were not supported by aging analysis schedules and there were no correspondences with customers file for evidence of completeness/correctness of the debtors balances.

Recommendation

The County Government should automate the debtors' management system. Further, the debtors transferred from the Council to the County Government should be verified and cleaned where necessary before being adopted and should also be supported by aging analysis. In addition, a correspondences file with customers' information should be kept for audit verification and confirmation of recoveries.

8.4 Creditors

Transition Authority Circular Ref. No. TA/2/5 dated 9 January 2013, required the Clerks of Local Authorities to carry out an inventory of all assets, debts and liabilities including movable and immovable assets. However, the Council did not maintain a creditors register or ledger. Further, the creditors balance as at 30 June 2013 amounted to Kshs.18,425,460 yet only creditors totalling Kshs.6,072,208 were supported by necessary schedules, correspondences and other necessary documentation thus leaving unreconciled and unexplained balance of Kshs.12,353,252 as at 30 June 2013.

Recommendation

The Sub-Council should ensure that a creditor's register/ledger is opened and properly maintained at all times and to further produce the necessary schedules and other documentary evidence for creditors totaling Kshs.12,353,252 for audit review and confirmation of the accuracy of the balances.

8.5 Cash and Bank Balances

Letter Ref No.TA/7/5/ (20) dated 12 February 2013 and MOF/IFMIS/41 dated 7 March 2013 instructed all local authorities to freeze all their bank accounts except for the receiving bank account. However, Council continued to operate its bank accounts up to 30 June 2013 when they were closed and balances of Kshs.2,663,812 transferred to an account which was opened by the headquarters as directed vide letter ref no. KCG/FIN/19/VOL.15 dated 3 June 2013. Further, the bank balances transferred to the new account, though supported by bank statements were not supported by bank reconciliation statements, cash books and bank certificates.

Recommendation

Cash books should be maintained for all bank accounts. Further, the Sub-County should prepare bank reconciliation statements on a monthly basis and bank certificates should also be produced for audit review.

8.6 Revenue

The Sub-County management failed to maintain a manual revenue cash book and revenue control sheets to enable confirmation of the revenue collections during the period under review.

Recommendation

A manual revenue cashbook should be kept and strong internal control system put in place to ensure that there is proper accountability at every stage in the revenue collection cycle. Revenue control sheets should be maintained by the appropriate officer, who will ensure that official receipts are issued to revenue collectors whenever revenue is banked and to ensure proper recording of the same in the cash book and the bankings reconciled.

8.7 Expenditure

Letter Ref. No. COB/TA/001/1 from the Office of the Controller of Budget dated 8 May 2013 required the Local Authorities to avoid utilizing fund from the old accounts and to confirm that expenditure complies with the budget and is authorized by County Assembly as per the County Appropriation Act and the Public Finance Management Act, 2012. However, the Council continued to incur expenditure totalling Kshs.39,317,204 without the approval of the County Assembly.

Recommendation

The County Government should ensure any expenditure incurred is approved by relevant authorities.

8.8 Payroll

Letter ref no MOF/IFMIS/1/41 dated 7 March 2013 instructing the previous local authorities to freeze their bank accounts with the exception of the receiving accounts. However, the local authority continued to incur expenditure on staff payroll without the approval of the County Assembly contrary to the Public Finance Management Act, 2012 and the County Appropriation Act.

Recommendation

The County Government should regularize the expenditure incurred from 1 March 2013 to 30 June 2013 by seeking a post facto approval from the County Assembly since the relevant committees were not in place at the time the expenses were incurred.

9.0 MUNICIPAL COUNCIL OF RUIRU/RUIRU SUB-COUNTY

9.1 Compliance with Circulars

Circular reference no. MLG/1333/TY/52 dated 18 February 2013 required all town clerks to prepare a statement of assets and liabilities as at 28 February 2013. In addition, letter reference no. MOF/IFMIS/1/41 dated 7 March 2013 instructed the previous local authorities to freeze their bank accounts with the exception of the receiving accounts. However, the Council did not prepare and submit a statement of assets and liabilities to the Auditor-General for audit and also continued to operate its bank accounts to 20 June 2013.

Recommendation

The management should in future adhere to the directives from relevant authorities.

9.2 Property, Plant and Equipment

Section 1 (f) and (g) of the Local Authorities Financial Management Regulations (LAFMR) requires each local authority to keep a property register, acquire titles, value and maintain a fixed assets register among other records. Further, regulation M. 2A (3) states that the assets shall as far as possible be marked and numbered. However, the Council did not maintain a fixed assets register and had not marked and numbered its property, plant and equipment as at 30 June 2013. Further, the management had not acquired title deeds for 145 parcels of land under its jurisdiction as at 30 June 2013.

Recommendation

The Sub-County should open a fixed assets register and also have the assets, marked and numbered. Further, the County Government should commence the process of acquiring title deeds for all the land under its jurisdiction.

9.3 Creditors

The Treasurers' manual provides that each Council should maintain a set of accounting registers and records that enable preparation of accurate financial statements. However, the Council did not maintain a creditors register or ledger. Further, the Council's creditors amounting to Kshs.10,574,888 included an actuarial deficit of Kshs.8,182,901 due to Laptrust which the Council had disputed.

Recommendation

A creditor's register/ledger should be opened and maintained at all times. In addition the liabilities transferred to the County Government should be verified and cleaned where necessary before being adopted and the legal position of the disputed liabilities should be obtained and action on the same taken immediately.

9.4 Non Compliance with Public Procurement and Disposal Regulations

The Public Procurement and Disposal Regulations, 2006 requires that every procuring entity constitutes opening, evaluation and tender committees for quotations/bids which are independent from each other. However, the same officers served in all the committees when procuring goods and services.

Recommendation

The procurement process should be carried out by independent committees.

9.5 Bank Balances

Letter Ref No. TA/7/5/ (20) dated 12 February 2013 and MOF/IFMIS/41 dated 7 March 2013 instructed all local authorities to freeze all their bank accounts except for the receiving bank account. However, the Council continued to operate its bank accounts up to 23 June 2013 when they were subsequently closed and

Kshs.116,488,677 transferred to an account which was opened by the headquarters as directed vide letter ref no. KCG/FIN/19/VOL.15 dated 3 June 2013. Further, the bank balances were not supported by bank reconciliation statements and cash books.

Recommendation

The Sub-County should maintain cash books and bank reconciliation statements should be done on a monthly basis to support the balances transferred.

9.6 Internal Control

The Local Authority Financial Management Regulations require every Council to establish an audit committee for the purpose of carrying out in depth reviews of internal control and the internal audit process. In addition, the regulations require an independent internal audit department to be set up and report to the audit committee. However, the internal audit function was not active during the period under review since no reports were produced during that period. Further, the internal audit department is manned by only one officer. Lack of segregation of duties in the finance department was also evident.

Recommendation

The internal audit department should be facilitated with resources to improve its capacity to carry out effective audits and the same should be done for the new audit committee to deliver on its mandate. Further, additional officers should be deployed to the finance department to enhance segregation of duties.

9.7 Revenue

Letter Ref No. MLG/1328/A/ (3) dated 7 March 2013 instructed clerks to the local authorities to ensure that all revenue collected during the transition period is banked intact as required by the law. However, sampled revenue collection during the period between from 11 January to 14 June 2013 totalled Kshs.25,240,129 but only Kshs.24,610,610 had been banked by 17 June 2013 thus a short fall in banking of Kshs.629,519**.** Further, a manual revenue cash book was not maintained.

Recommendation

The Sub-County management should ensure that all revenue collected is banked intact and the short fall in banking is investigated and accounted for. As an internal control measure, the Sub-County should be provided with adequate float to avoid spending from revenue and a manual revenue cash book should be maintained.

9.8 Expenditure

Letter Ref. No .COB/TA/001/1 from the Office of the Controller of Budget dated 8 May 2013 required the Local Authorities to avoid utilizing fund from the old accounts and to confirm that expenditure complies with the budget and is authorized by County Assembly as per the County Appropriation Act, 2013 and Public Finance

Management Act, 2012. However, the Council continued to incur expenditure to the tune of Kshs.66,564,119 without the approval of the County Assembly thus contravening the Public Finance Management Act, 2012 and the County Appropriation Act, 2013.

Recommendation

The County Government should ensure any expenditure incurred is approved by relevant authorities.

9.9 Debtors

Transition Authority Circular Ref. No. TA/2/5 dated 9 January 2013, organizations required the Clerks of Local Authorities to carry out an inventory of all assets, debts and liabilities including movable and immovable assets. However, the management of the Council did not maintain an automated system on debtors' management. Further, the outstanding house rent debtors balance as at 30 June 2013 of Kshs.5,561,461 was not supported by an aging analysis schedule and there was no correspondences file with customers for evidence of completeness/correctness of the balances.

Recommendation

The Council should maintain an automated system on debtors' management and the debtors balance of Kshs.5,561,461 should be supported by an aging analysis schedule. Further, a correspondences file with customers' information should be kept for audit verification and confirmation of the correct balances.

10.0 MUNICIPAL COUNCIL OF KIAMBU/KIAMBU SUB-COUNTY

10.1 Compliance with Circulars

Circular Ref; MLG/1333/TY/52 dated 18 February 2013 required all town clerks to prepare a statement of assets and liabilities as at 28 February 2013. In addition, letter ref no MOF/IFMIS/1/41 dated 7 March 2013 instructed the previous local authorities to freeze their bank accounts with the exception of the receiving accounts. However, the Council did not prepare and submit a statement of assets and liabilities to the Auditor-General for audit. Further, it continued to operate its bank accounts up to 20 June 2013 in disregard of the directive and also continued to incur expenditure without the approval of the County Assembly contrary to the Public Finance Management Act, 2012.

Recommendation

The management should in future adhere to directives issued by relevant authorities.

10.2 Property, Plant and Equipment

Section 1 (f) and (g) of the Local Authorities Financial Management Regulations (LAFMR) Section 149 (20) of the Public Financial Management Act, 2012 requires each local authority/government entity to properly register, acquire titles, value and maintain a fixed assets register among other records. Further, regulation M. 2A (3) states that the assets shall as far as possible be marked and numbered. However, the ownership of the Council's 49 parcels of land could not be verified due to lack of title deeds. Further, the Council had not valued, marked and numbered its property, plant and equipment as at 30 June 2013. In addition, the repairs and maintenance expenditure was not analysed into the various components. Various assets were released to the County Government from the Sub-County (Council) without documentation.

Recommendation

The County Government should commence the process of acquiring title deeds for all the land under its jurisdiction also undertake the process of valuing, marking and numbering its property, plant and equipment. Further, the repairs and maintenance expenditure should be analyzed into the various components for ease of controlling the various components expenditure and proper handing over and taking over should be done to confirm the assets that were transferred.

10.3 Debtors

10.3.1 Sundry Debtors

Transition Authority Circular Ref. No. TA/2/5 dated 9 January 2013, required the Clerks of Local Authorities to carry out an inventory of all assets, debts and liabilities including movable and immovable assets. However, the debtors balances as at 31 December 2012 , 28 February 2013 and 30 June 2013 of Kshs.37,266,110, Kshs.34,523,227, and Kshs.33,544,805 respectively were not supported by aging analysis schedules. Further, there were no correspondences with customers file for evidence of completeness/correctness of the balances.

10.3.2 Staff Imprest

The defunct Local Authority had long outstanding staff imprests totalling to Kshs.304,299.

Recommendation

The debtors' balances should be supported by aging analysis schedules to confirm their collectability and a correspondences file with customers' information should be kept for audit verification on the authenticity of the debts.The long outstanding staff imprest should be recovered through the payroll.

10.4 Creditors

Transition Authority Circular Ref. No. TA/2/5 dated 9January 2013, required the Clerks of Local Authorities to take an inventory of all assets, debts and liabilities including movable and immovable assets. However, the management of the Council did not maintain a creditors register or ledger. Further, the Council's books reflected an actuarial deficit of Kshs.39,187,943 transferred to the County Government which is in dispute and is also not supported with the necessary documentation.

Recommendation

A creditor's register/ledger should be opened and properly maintained and updated at all times. Further, the unsupported liabilities should be supported and a legal position given on the same for the County Government to decide on the next course of action.

10.5 Cash and Bank Balances

Letter Ref No. TA/7/5/ (20) dated 12 February 2013 and MOF/IFMIS/41 dated 7 March 2013 instructed all local authorities to freeze all their bank accounts except for the receiving bank account. However, the Council continued to operate its bank accounts up to 27 June 2013 when they were closed and Kshs.528,388 transferred to an account which was opened by the headquarters as directed vide letter ref no. KCG/FIN/19/VOL.15 dated 3 June 2013. In addition, bank statements and certificates for all the bank accounts except Equity Bank and cash books as at 30 June 2013 were not provided for audit verification.

Recommendation

A cash book should be maintained, bank statements and certificates should be produced for audit review. Further, the County Government should in future adhere to the instructions issued by relevant authorities.

10.6 Expenditure

Letter Ref. No .COB/TA/001/1 from the Office of the Controller of Budget dated 8 May 2013 required the Local Authorities to avoid utilizing fund from the old accounts and to confirm that expenditure complies with the budget and is authorised by County Assembly as per the County Appropriation Act, 2013 and Public Finance Management Act, 2012. However, the Council continued to incur expenditure to the tune of Kshs.32,802,598 without the approval of the County Assembly thus contravening the Public Finance Management Act, 2012 and the County Appropriation Act, 2013.

Recommendation

The County Government should ensure any expenditure incurred is approved by relevant authorities.

11.0 MUNICIPAL COUNCIL OF THIKA/THIKA SUB-COUNTY

11.1 Compliance with Circulars

Circular reference MLG/1333/TY/52 dated 18 February 2013 required all town clerks to prepare a statement of assets and liabilities as at 28 February 2013. In addition, letter reference no. MOF/IFMIS/1/41 dated 7 March 2013 instructed the previous local authorities to freeze their bank accounts with the exception of the receiving accounts. However, the Council did not prepare and submit a statement of assets and liabilities to the Auditor-General for audit. Further, it continued to operate its bank accounts normally up to 20 June 2013.

Recommendation

The management should adhere to laws, regulations and directives.

11.2 Property, Plant and Equipment

Section 1 (f) and (g) of the Local Authorities Financial Management Regulations (LAFMR) requires each local authority to properly register, acquire titles, value and maintain a fixed assets register among other records. Further, regulation M. 2A (3) states that the assets shall as far as possible be marked and numbered. However, the Council did not maintain a fixed assets register. Further, the Council had not marked and numbered its property, plant and equipment and had also not acquired title deeds for 194 parcels of land under its jurisdiction as at 30 June 2013.

Recommendation

The Sub-County should maintain a fixed assets register and also have the assets, marked and numbered. Further, the County Government should commence the process of acquiring title deeds for all the land under its jurisdiction.

11.3 Creditors

The Treasurers' manual provides that each Council should maintain a set of accounting registers and records that enable preparation of accurate financial statements. However, the Council did not maintain a creditors register or ledger and the Council's books reflected creditors amounting to Kshs.273,329,031 out of which Kshs.40,011,390 was a disputed actuarial deficit transferred to the County Government and which was not supported with the necessary documentation.

Recommendation

A creditor's register/ledger should be opened and maintained at all times. Further, the Sub-County should produce for audit review the relevant documents for the actuarial deficit of Kshs.40,011,390 and other liabilities transferred to the County Government should be verified before being adopted in order to have the correct position on the creditors.

11.4 Non Compliance with Public Procurement and Disposal Regulations

The Public Procurement and Disposal Regulations, 2006 requires that every procuring entity constitutes opening, evaluation and tender committees for quotations/bids which are independent from each other. However, the same officers served in all the committees when procuring goods and services.

Recommendation

The procurement process should be carried out by independent committees.

11.5 Bank Balances

Letter Ref No. TA/7/5/ (20) dated 12 February 2013 and MOF/IFMIS/41 dated 7 March 2013 instructed all local authorities to freeze all their bank accounts except for the receiving bank account. However, the Council continued to operate its bank accounts up to 30 June 2013 when they were closed and a balance of Kshs.18,812,228 transferred to an account which was opened by the headquarters as directed vide letter ref no. KCG/FIN/19/VOL.15 dated 3 June 2013. In addition, the bank balances transferred to the new account, though supported by bank statement were not supported by bank reconciliation statements and cash books.

Recommendation

Cash book should be maintained. In addition, bank reconciliation statements should be done on a monthly basis and produced for audit review. Further, the directives from relevant authorities should be adhered to in future.

11.6 Internal Control

The Local Authority Financial Management Regulations require every Council to establish an audit committee for the purpose of carrying out in depth reviews of internal control and the internal audit process. In addition, the regulations require an independent internal audit department to be set up and report to the audit committee. However, the internal audit function was not active during the period under review since no reports were produced during that period. In addition, the internal audit department is manned by only one officer. Lack of segregation of duties in the finance department was also evident.

Recommendation

The internal audit department should be facilitated with resources to improve its capacity to carry out effective audits and the new audit committee should also be facilitated to deliver on its mandate. Further, additional officers should be deployed to the finance department to enhance segregation of duties which is one key component of internal check and thus internal control.

11.7 Revenue

A revenue cashbook was not maintained thus making it impossible to confirm the revenue collections through LAIFOMS of Kshs.118,744,139 for the period under review.

Recommendation

Revenue cashbook should be maintained and a strong internal control system put in place to safeguard the revenue from apparent loss or even theft.

11.8 Expenditure

Letter Ref. No .COB/TA/001/1 from the Office of the Controller of Budget dated 8 May 2013 required the Local Authorities to avoid utilizing fund from the old accounts and to confirm that expenditure complies with the budget and is authorised by County Assembly as per the County Appropriation Act, 2013 and Public Finance Management Act, 2012. However, the Council continued to incur expenditure to the tune of Kshs.145,865,928 without the approval of the County Assembly thus contravening the Public Finance Management Act, 2012 and the County Appropriation Act, 2013.

Recommendation

Any expenditure incurred should be approved by the relevant authority and properly accounted for.

11.9 Debtors

Transition Authority Circular Ref. No. TA/2/5 dated 9 January 2013, required the Clerks of Local Authorities to carry out an inventory of all assets, debts and liabilities including movable and immovable assets. However, the management of the Council did not maintain an automated system on debtors' management and the debtors balance as at 30 June 2013 of Kshs.1,463,562,822 was not supported by an aging analysis schedule. Further, there was no correspondences file with customers for evidence of completeness/correctness of the debtors' balances.

Recommendation

The Council should maintain an automated system on debtors' management and the debtors balance of Kshs.1,463,562,822 should be supported by an aging analysis schedule. Further, a correspondences file with customers' information should be kept for audit verification and confirmation on the bonafide debtors.

12.0 COUNTY COUNCIL OF THIKA/JUJA SUB-COUNTY

12.1 Compliance with Circulars

Circular ref; MLG/1333/TY/52 dated 18 February 2013 required all town clerks to prepare a statement of assets and liabilities as at 28 February 2013. In addition, letter ref no MOF/IFMIS/1/41 dated 7 March 2013 instructed the previous Local Authorities to freeze their bank accounts with the exception of the receiving accounts. However, the Council did not prepare and submit a statement of assets and liabilities to the Auditor-General for audit. Further, it continued to operate its bank accounts up to 20 June 2013.

Recommendation

The management should in future adhere to instructions given by relevant bodies/authorities.

12.2 Property, Plant and Equipment

Section 1 (f) and (g) of the Local Authorities Financial Management Regulations (LAFMR) requires that each local authority to properly register, acquire titles, value and maintain a fixed assets register among other records. Further, regulation M. 2A (3) states that the assets shall as far as possible be marked and numbered. However the Local Authority did not maintain a fixed assets register. Further, Council had not marked and numbered its property, plant and equipment and had also not acquired title deeds for 14 parcels of land under its jurisdiction as at 30 June 2013.

Recommendation

The Sub-County should maintain a fixed asset register and also mark and number the property, plant and equipment for ease of identification and further commence the process of acquiring title deeds for the 14 parcels of land under its jurisdiction.

12.3 Debtors

Transition Authority Circular Ref. No. TA/2/5 dated 9January 2013, required the Clerks of Local Authorities to carry out an inventory of all assets, debts and liabilities including movable and immovable assets. However, the debtors balance as at 30 June 2013 generated through LAIFOMS was Kshs.116,823,226.00 while the manually generated balance was Kshs.51,584,901. Further, there were no correspondences file with customers details for evidence of completeness/correctness.

Recommendation

The unexplained difference of Kshs.65,238,325 should be investigated and corrective measures taken. Further, the County Government should have a correspondences file with customers’ information for audit verification.

12.4 Creditors

The Treasurers' manual provides that each Council should maintain a set of accounting registers and records that enable preparation of accurate financial statements. However, the Council did not maintain a creditors register or ledger. Further, Councils books reflected a creditors figure of Kshs.65,666,847 out of which Kshs.42,101,835 is an actuarial deficit disputed by the defunct Council.

Recommendation

A creditor's register/ledger should be opened and properly maintained at all times and the legal position of the disputed liabilities should be obtained and action on the same taken immediately.

12.5 Non Compliance with Public Procurement and Disposal Regulations

The Public Procurement and Disposal Regulations, 2006 requires that every procuring entity constitutes opening, evaluation and tender committees for quotations/bids which are independent from each other. However, the same officers served in almost all the committees when procuring goods and services.

Recommendation

The procurement process should be carried out by independent committees.

12.6 Bank Balances

Letter Ref No. TA/7/5/(20) dated 12 February 2013 and MOF/IFMIS/41 dated 7 March 2013 instructed all local authorities to freeze all their bank accounts except for the receiving bank account. However, the Council continued to operate its bank accounts up to 20 June 2013 when they were closed and balances of Kshs.65,666,847 transferred to an account which was opened by the headquarters as directed vide letter ref no. KCG/FIN/19/VOL.15 dated 3 June 2013. In addition, the bank balances transferred to the new account, though supported by bank balances were however not supported by bank reconciliation statements and cash books.

Recommendation

The County Government should maintain Cash books and bank reconciliation statements should be done on a monthly basis and produced for audit review for proper accountability.

12.7 Internal Control

The Local Authority Financial Management Regulations require every Council to establish an audit committee for the purpose of carrying out in depth reviews of internal control and the internal audit process. In addition, the regulations require an independent internal audit department to be set up and report to the audit committee. However, the internal audit function was not active during the period under review since no reports were produced during that period. In addition, the internal audit department is manned by only one officer. Lack of segregation of duties in the finance department was evident.

Recommendation

The internal audit department should be facilitated with resources to improve its capacity to carry out effective audits and an audit committee should also be set up. Further, additional staff should be deployed to the finance department to enhance segregation of duties.

12.8 Revenue

The management did not maintain a manual revenue cashbook and it was not possible to confirm the revenue collected through LAIFOMS of Kshs.65,821,127 during the period under review.

Recommendation

A manual revenue cashbook should be maintained and a strong internal control put in place to ensure proper accountability at every stage of revenue collection cycle.

12.9 Expenditure

Letter Ref. No .COB/TA/001/1 from the Office of the Controller of Budget dated 8 May 2013 required the Local Authorities to avoid utilizing fund from the old accounts and to confirm that expenditure complies with the budget and is authorised by County Assembly as per the County Appropriation Act, 2013 and Public Finance Management Act, 2012. However, the Council continued to incur expenditure to the tune of Kshs.69,194,506 without the approval of the County Assembly thus contravening the Public Finance Management Act, 2012 and the County Appropriation Act, 2013.

Recommendation

The County Government should ensure any expenditure incurred is approved by relevant authorities.

13.0 ICT ASSESSMENT COUNTY REPORT

13.1 Applications in Place

In order to meet its objectives and obligations, the County has the following applications:

1) Integrated Financial Management Information System (IFMIS) is the application that is used to capture expenditure for the entire County. This application's processes include; Procure to Pay, Revenue to Cash, Records to Report and

Communication to Change. IFMIS is Web enabled and centrally managed by the National Treasury.

2) Integrated Payroll and Personnel Database (IPPD) is the human resource and payroll management application which is used to capture and process employees' earnings and deductions.

3) Local Authorities Integrated Financial Operation Management System (LAIFOMS) is a financial management system whose modules include receipts processing, accountable documents management and the property rates management. The expenditure and personnel management modules had since been deactivated with effect from 30 June 2013.This application is a stand-alone and had previously been installed in the Local Authorities within the County.

13.2 Audit Objectives and Scope

The overall objective was to carry out an assessment of the ICT infrastructure setup so as to determine the preparedness of the County to receive and utilize devolved funds using the financial management system. In carrying out the audit, we were to identify any risks or gaps that existed in the ICT operating environment and also make recommendations on how to improve the systems in place.

The specific objectives were:-

1) To determine the adequacy of IT control environment to ensure that the information system objectives are aligned with the County's mandate.

2) To confirm whether the County is sufficiently connected to IFMIS and G- pay.

3) To determine the integrity of payroll data migrated from LAIFOMS to IPPD

13.3 Methodology and Approach

The audit was conducted at the County executive headquarters in Thika Town and commenced by conducting preliminary assessment through an interview with the ICT manager and his staff. A physical verification of the computers supplied by National Treasury was also done. We also visited all the defunct Councils/ Sub-County offices which were operational at the time of the transition. These Sub-Counties were:-

13.4 AUDIT FINDINGS

The detailed findings identified during the audit are as follows:-

13.4.1 IT Control environment

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

13.4.1.1 Management of IT operations

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

13.4.1.2 IT organization structure

The ICT department at the County headquarters has three (3) employees who do not have defined roles and responsibilities for them to effectively manage the IT operations at the County.

13.4.1.3 Lack of Training of ICT Staff on Applications in Place

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

13.4.1.4 Hardware

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

13.4.1.5 Computers and accessories

The County has been supplied with twenty (20) personal computers by Treasury which will be solely used for IFMIS. It was however noted that the County does not have a comprehensive ICT inventory for all ICT assets at the headquarters and all the Sub-County offices. It is therefore unlikely that the ICT staff can manage these ICT assets and provide the necessary hardware maintenance.

13.4.1.6 Data Centre

The County has one (1) data center (server room) at the headquarters. A physical inspection of the data center indicated that it does not have adequate physical and environmental controls. Some of the controls lacking include reinforced physical doors, air conditioning systems, smoke detectors and fire extinguishers.

13.4.1.7 Network Connectivity

There are local area networks (LAN) in all the Sub-County visited apart from Karuri Town Council, which was still using manual procedures. The existence of the LANs in the Sub-Counties is because they have been using LAIFOMS in carrying out the day-today operations.

13.5 IFMIS and G-Pay

IFMIS has been installed in the County but it is not operational. The personal computers that have been installed with IFMIS use Orange CDMA Modems to connect to IFMIS through the Treasury's Virtual Private Network (VPN). In addition staff were in the process of being trained. The County has also received one personal computer that will be dedicated to G-pay. It was also indicated that the G-pay users have been trained. Currently, all payments are done manually by use of cheques.

13.6 LAIFOMS

LAIFOMS had been installed in all the Sub-Counties visited apart from Karuri Town Council, which was manual. The LAIFOMS at the Sub-Counties are not centrally managed at the County headquarters. It therefore poses a challenge in terms of managing these applications.
LAIFOMS is mostly been used in revenue collection, issuance of single business permits, property management and recording of the accountable documents. It was however noted that the County was not fully utilizing the banking module to capture all the revenue banked. Our verifications at Kiambu and Thika Sub-County offices confirmed that banking slips had not been captured in the banking module. The County is therefore at risk of failure to have timely reconciliations of the revenue collected.
The human resource modules are not currently in use after consolidation of payrolls in IPPD while the expenditure modules were deactivated with effect from 1 July 2013.

13.7 Integrated Personnel Payroll Database (IPPD)

The County has since consolidated the employees' complement and payroll for all the Sub-County offices. The consolidated payroll was for the February 2013 database and the first payroll to be processed and paid from IPPD was for June 2013.

During the audit, we extracted all the Sub-County offices' payroll and employees' database from LAIFOMS for the months of February 2013 to May 2013. The data extracted was compared with the June 2013 IPPD payroll and our analysis revealed the following:

13.7.1 Officers in IPPD and NOT in LAIFOMS

A comparison between officers paid in the consolidated IPPD payroll for June 2013 against the LAIFOMS' payrolls for May 2013, revealed that one hundred and fifty one (151) officers in the IPPD payroll could not be traced to the LAIFOMS' module for the Sub-Counties. The management explained that IPPD had been prepared on the basis of February 2013 bio-data from LAIFOMS and that changes had been done between March and May 2013. Some of the changes that caused the difference include officers who retired within that period and officers who had been deployed to Murang'a County.

It was subsequently confirmed that the management is in the process of effecting the changes in IPPD and at the time of the audit only changes for two Sub-Counties had been corrected.

13.7.2 Officers sharing bank accounts

Analysis of bank accounts as maintained in the IPPD revealed that six (6) officers are sharing bank accounts without proper authorization letters.

13.7.3 Inaccurate Tax PINs

Analyses of the IPPD complement data indicate that fifty eight (58) officers have invalid and inaccurate tax PINs. It was explained by management that a data cleansing form has been developed and given to all staff members so that they can indicate their accurate bio-data.

13.7.4 Under-age employees upon employment

Analysis of the IPPD complement data further indicated that there are ten (10) officers who were below the statutory age of eighteen (18) years upon being employed. This therefore could have an effect on the calculated pension age upon retirement.

13.8 Risks Involved

In view of the foregoing, the County is exposed to the following risks

1) The IT operations may not be effectively managed and aligned to support the operations of the County.

2) Lack of a network diagram may lead to delay in detecting and correcting of any network problem that may arise at the County headquarters.
3) The absence of IT contingency plans does not ensure continuity of service and operations at the County in the event that unforeseen disaster takes place.

4) Loss of ICT assets without trace due to lack of a comprehensive ICT inventory.

5) The use of restricted CDMA modems may lead to downtime, which may hamper the smooth operations of the county.

6) Inability to centrally manage LAIFOMS may lead to revenue leakages at the Sub-Counties.

7) The County may have non-existent employees in their payroll system

Recommendations

In order to mitigate the risks, the following recommendations are made:-

1) The County should develop and approve the key ICT documents that ensure proper management of IT operations. These documents govern key IT operations including use of passwords, back-ups, maintenance of IT equipment, and

continuity of IT critical operations in the event of a disaster and network management. In addition, these documents should also be circulated to staff so as to create awareness and ensure compliance.

2) The County may consider having a wide area network (WAN) that connects all the Sub-Counties with the County headquarters so as to ensure that operations are centrally managed.

3) The management should ensure that all revenue collected and banked should be captured in the LAIFOMS so that timely reconciliation can be done.

4) The ICT department, as strategic resource, needs to be adequately staffed and with defined roles so as to effectively manage the IT operations of the County.

5) The payroll data in IPPD needs to be cleansed and the County may consider conducting a head count so as to establish the existing employees.

CONCLUSION

From the foregoing observations, it is clear that the process of handing over and taking over of the assets and liabilities from the defunct Local Authorities and the Councils was not done as instructed due to an apparent leadership problem in the Transition Authority who were meant to have guided the process of seamless transfer. The County Government should however assume full control of functions already devolved as per the Devolved Governments Act, 2012. Finally, the County Assembly being the watch dog should monitor all the activities and take necessary corrective measures where required.

Edward R.O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

6 March 2014