

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

REPORT
OF
THE AUDITOR–GENERAL
ON THE
FINANCIAL OPERATIONS
OF
MAKUENI COUNTY

Contents

SPECIAL AUDIT REPORT ON THE OPERATION OF MAKUENI COUNTY GOVERNMENT AND FORMER COUNCILS FOR THE PERIOD 1 JANUARY TO 30 JUNE 2013

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SPECIAL AUDIT REPORT ON THE OPERATION OF MAKUENI COUNTY GOVERNMENT AND FORMER COUNCILS 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 Further, the County Government Act, 2012 Section 134 (1) repealed the Local Government Act, Cap 265, and thus effectively dissolving all the 175 Local Authorities and creating 47 County Governments.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.

1.3 The audit covered the County Executive and County Assembly and the former County Council of Makueni, Town Council of Wote and Town Council of Mtito Andei transactions for the period 1st January to 30th June 2013, and took into account transactions before, during and after the transition period.

2.0 Audit Objectives

The terms of reference set for the audit included verifications and confirmations of transactions in respect to but not limited to the following areas:

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

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.

3.0 Key Audit Findings

County Government of Makueni Executive

3.1 Failure to Take Over the Defunct Local Authorities

The County Government of Makueni had not taken over the assets and liabilities of the former local authorities in Makueni County as at the time of audit conclusion in September, 2013. No handing over memorandum was provided to show what was taken over. No board of survey was constituted to come up with accurate balances

of cash on hand as well as the bank balances. The Government should ensure that accurate statement of assets and liabilities are prepared upon which the handing over taking over should be effected.

3.2 Current Assets and Liabilities

(i) Debtors

During the period ended 30 June 2013, the County Government of Makueni did not validate or consolidate its debtors especially the debtors of the three defunct local authorities which totaled Kshs.121,572,468. However, appropriate systems for recording debtors by the County Government should be developed to ensure accuracy of records. Also, debt collection policy should be put in place to facilitate collection of County debts as and when they fall due.

(ii) Creditors

According to the statement of assets and liabilities as at 28 February 2013, the defunct local authorities had creditors totaling Kshs.70,819,700. 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 Records

There was no record provided to show the assets which were handed over to the County Government. During the period ended 30 June 2013, the County Government of Makueni did not validate or consolidate its Fixed Assets especially those relating to the three defunct local authorities. The fixed Assets balances for the period ending 30 June 2012 totaled Kshs.30,472,084. However, appropriate

systems for recording Fixed Assets by the County Government should be developed to ensure accuracy of records.

3.4 Procurement of Goods and Services

Procurement of Hotel Services

The County Government of Makueni hired hotel conference facilities through single sourcing and paid an amount of Kshs.864, 000 in May 2013 for an eight-day workshop for the Members of the County Assembly. The list of participants was not attached to support the expenditure of Kshs.864,000.

The County Government spent Kshs.3,676,000 for paying per diem to Members of County Assembly and technical staff and yet the Hotels had been paid full accommodation. This amount to double payment and the allowances should be recovered from the respective officers. The procurement law and regulations should be adhered to while sourcing for services.

3.5 Implementation Status of Integrated Financial Management Information System (IFMIS) at County Treasury Makueni

Objective of Installing the System

The aim of connecting county government to IFMIS is to facilitate oversight via a single public financial management information system. The IFMIS was not operational at Makueni County as at the time of audit in September, 2013. Members of staff in the treasury had not been fully trained on the modules to be used. The National Treasury should expeditiously ensure full installation and operationalization of IFMIS as well as capacity building of the users.

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:

Management of IT Operations

The County is yet to develop some of the key ICT documents including: ICT policies and procedures, Network Diagram, Business Continuity and Disaster Recovery Plans.

IT organization Structure

The county IT department has five (5) personnel, three (3) employed on permanent basis and two (2) on temporary basis. There are no defined roles and responsibilities on how to oversee the IT operations hence there is no segregation of duties.

IT Budget

The county has an allocation of Kshs.230,925,273 for ICT in the 2013/2014 budget made up of development (Kshs.92,583,714) and Recurrent (Kshs.138,341,559). There are no details on how the budgeted money will be spent.

Computers and Accessories

The County had received nineteen (19) computers, nineteen (19) special orange CDMA modems and one scanner from The National Treasury (IFMIS Department) which will be solely used for IFMIS. The Interim ICT Manager has not been able to carry out an assessment of the ICT Status and Infrastructure of the County.

Data Centre

The County has one (1) data center (server room) at the former County Council of Makueni offices previously used for LAIFOMS. However, the data centre does not have adequate physical and environmental controls like smoke detectors and fire extinguishers. The equipment was not connected to a source of back up electrical power. Also, access to the server room, which hosts critical and sensitive ICT equipment, had no controls and equipment like network routers, switches and the PABX were not mounted on a rack cabinet to safeguard against exposure to potential hazards.

Network Connectivity

There is no established Wide Area Network at the County to connect the various Sub-County offices. There is a Local Area Network at the District Headquarters Makueni and at former Municipal Council of Makueni offices which it does not interlink the systems and applications in place.

Software

Some of the county government's pre-existing computers are running Microsoft windows operating systems and Microsoft office software that are not genuine. This exposes the county government to the hefty fines levied by Microsoft for use of counterfeit software which is part of Microsoft's anti- piracy measures, and to potential litigations. It is also against the government policy.

IFMIS

IFMIS has been installed in the County with only budgeting module operational. The computers use Orange CDMA Modems to connect to IFMIS through the Treasury's Virtual Private Network (VPN). The Orange connectivity is poor due to

poor network signals. Currently, all payments are done manually by use of cheques. Twelve (12) officers of the County have been informally trained on IFMIS at their offices, while thirteen (13) went through formal training at Kenya School of Governance (KSG). However only two (2) staff have rights to access one module of the system i.e. plan to budget.

G-PAY

The County had received one computer from The National Treasury which is dedicated for G-Pay. Training for G-Pay had been undertaken for eight (8) officers, but only one was given access and was said to be on work related suspension.

IPPD

The County has fully installed the IPPD system and the payroll beginning July 2013 was processed using the system. There are four (4) trained users and one admin who is the manager in charge.

3.6 Other Findings

(i) Irregular Holding of Two Public Offices

A member of the executive committee of Makueni County who, prior to his appointment, was an employee of the Ministry of Health (formerly Ministry of Medical Services) continued drawing salaries from the former employer. According to Public Service regulations, he was required to resign immediately upon appointment to a political office. However, IPPD Data Reference Sheet- Complement Control Record for the month of July, 2013 obtained from the Ministry of Health showed that the officer, who is the current Minister for Health in the County of Makueni, still holds his position in the National Government,

Ministry of Health and continues drawing two salaries, from both the National and County Government.

Section G.30 (1) of the Government Code of Regulations states that where an officer has received any erroneous payment, he shall be liable to refund to the Government the amount of such payment. The irregular payment of the salary should therefore be recovered from the County Secretary who authorized the expenditure unless the amount is recovered from the officer.

(ii) Unauthorised Withdrawal of Funds from Revenue Account Held at KCB Makueni

The County Government of Makueni made bank withdrawals totalling to Kshs.42, 415,277 from the County Revenue Account between the months of April and June, 2013 without the approval of the Controller of Budget. This was contrary to section 16 (2) of the County Governments Public Finance Management Transition Act, 2013. However, no funds should be withdrawn from the County Revenue Funds for appropriation by the county government without the appropriate approval.

(iii) Irregular Payment of Sitting Allowances to Members of the County Assembly

Members of Makueni County Assembly drew allowances totaling Kshs.425, 000 in June 2013 for committee meetings that did not take place. Examination of the attendance register revealed that the MCAs claimed sitting allowances for sessions that did not take place on the days quoted. In one instance, a member of the Public Accounts/Investment Committee drew sitting allowances on dates when he drew night out allowances for having attended a workshop at Mombasa. The irregular

payments/overpaid allowances should be recovered from the member/officers' salaries. Payment of sitting allowances should be made in accordance with existing government regulations.

Former County Council of Makueni

3.7 Improper Handing Over to the County Government

There was no proper handing over of the former County Council of Makueni assets and liabilities to the Transition Authority as required by the Ministry of Local Government circular of 18 February, 2013. The County Government should recall the Chief Officers of the defunct Local Authority and ensure that assets and liabilities of the former Local Authority are properly handed over.

3.8 Current Assets and Liabilities

(i) Cash and Bank Balances

Failure to Close Bank Accounts

The former County Council of Makueni operated seven (7) banks namely:- Salaries account held at Equity Bank, General Revenue Fund account, Local Authority Transfer Fund account, General Revenue Fund account, Renewals account, European Union account and Kazi Kwa Vijana account all held at Kenya Commercial Bank. All these bank accounts should have been closed by 4 March 2013 or three months after the general elections to allow for reconciliations. However, Salaries and GRF accounts held in Equity bank, and GRF and LATF accounts held in KCB remained operational up to July 2013, when the balances were transferred to County Government Revenue Account.

No board of survey on cash was constituted to confirm cash on hand and bank balances as at 28 February 2013, which would be the opening balances for the County Government. Transition Principal Officer Finance shall ensure that reconciliations are carried out as per section 28 of the County Governments Public Finance Management Transition Act, 2013 to establish the correct bank balances that were to be transferred to the revenue fund account.

(ii) Debtors (Property Rates)

Outstanding debtors balance as at 31 December 2012 stood at Kshs.109,373,586, out of which Kshs.8,713,856 became due on 31 December 2012 while the balance of Kshs.100,659,730 relates to 31 December 2011 and prior years. The balance as at 28 February 2013 was Kshs.109,215,105. The outstanding balance as at 30 June 2013 was Kshs.109,118,079,

3.9 Procurement of Goods, Works and Services

(i) Irregular Procurement of Goods on Cash Basis

A cashier was issued with an imprest of Kshs.3,839,716 vide two cheques of Kshs.1,919,858 and Kshs.1,919,858 in the month of March 2013, for construction of two washrooms. No imprest warrant or payment voucher was made available for audit review. The construction of the washrooms was done through direct procurement of materials and labor on cash basis. With no technical drawings, bills of quantities and supporting schedules of materials, it was not possible to establish how the cost of each washroom was determined at Kshs.1,919,858. In addition, there was no justification for direct procurement which denied the Council advantages of competitive sourcing of the services. The procurement was also not

reported to Public Procurement Oversight Authority (PPOA) in line with requirements of the procurement law.

A site visit made on 3/9/2013 revealed that the two washrooms existed. However, in the absence of payments details and other supporting documents, it was not possible to establish whether the Council obtained value for money for expenditure totaling to Kshs3,839,716 incurred on the two washrooms.

(ii) Payments for Undelivered Goods and Services

An amount of Kshs.4,181,351 was purported to have been spent on materials and labour costs for some capital projects. The building materials purported to have been ordered, delivered on sites and inspected by the Inspection and Acceptance Committee on diverse dates as evidenced by LPOs, inspection minutes and delivery notes attached to the payment vouchers. Some of the projects were also supposedly completed upon which the Inspection and Acceptance Committee was to issue certificates of practical completion. A physical verification carried out on these projects on 29/08/2013 and on 2/09/2013 revealed that the constructions were never executed and building materials allegedly delivered on sites were never delivered. As such, no labour costs were incurred by the former County Council of Makueni, and certificates of completion issued by Inspection and Acceptance Committee were therefore falsified with the obvious intention of irregularly spending public funds. The loss of public funds should be investigated with a view to recover the funds and for disciplinary action to be taken on the concerned officers.

3.10 Non-Current Assets Motor Vehicles and Office Equipment.

The former county council of Makueni valuation report dated 14 March 2012 reflects motor vehicles and office equipment at Kshs.25,721,500. However, there was no record provided to show the assets handed over to the County Government.

3.11 IPPD Payroll

The County Council of Makueni did not prepare a handing over report containing the names of employees to be handed over to the County Government. Comparison made between December 2012 and January 2013 payrolls revealed 31 additional staff in various posts, deployed in the month of December 2012 and part salaries for the month paid vide payment vouchers. The staffs were integrated in the payroll in the month of January 2013. Examination of correspondences and circulars made available revealed that the recruitment process started on 15 July 2012. However, no approval from the former Ministry of Local Government was seen. The County Government of Makueni should conduct staff audit to confirm that the additional staff were procedurally recruited, and also to ascertain the optimum staff requirement for its efficient and effective operations.

3.12 Revenue Collection

Failure to capture all Revenue Collections in LAIFOMS

Revenue collected and reflected in manual monthly receipts during 2012/2013 totaled Kshs.141,560,985, while monthly reports as per LAIFOMS showed revenue totaling Kshs.132,745,978, resulting to unreconciled difference of Kshs.8,815,007 between the two sets of records. The bank statements on the other hand revealed that a total of Kshs.141,466,234 had been banked as at 30 June,

2013, and therefore an unexplained difference of Ksh.94,751. The County Government continued collecting revenue through receipt books inherited from the defunct County Council before taking the same on charge. The County Government should ensure that revenue section is adequately staffed to enhance accurate recording of all revenue collected.

3.13 Other Findings

(i) Reallocation of Local Authorities Transfer Funds (LATF)

The former County Council of Makueni received LATF funds of Kshs.132,860,770 on 5 March 2013. 37% of the amount disbursed i.e. Kshs.49,158,484 was supposed to fund some of the capital projects identified in the financial year 2012/13 approved estimates. However, some funds were reallocated to pay staff salaries arising from the Collective Bargaining Agreement (CBA). At the time of the audit in September, 2013, no evidence on Authority to effect such a reallocation was made available for verification. The citizens were therefore denied essential services by diverting project funds to pay salaries. Reallocation of funds should be done in accordance with the government financial regulations and procedures in force.

(ii) Payment for Accrued Legal Fees

Examination of the payment vouchers revealed that Kshs.7,876,305 was paid to a firm of Advocates during the financial year 2012/13, to clear accrued legal fees charged to the former Council vide invoices (fee notes) dated 19/6/2012 and received by the former Council on 21/6/12. The statement of financial position as at 30 June 2012 did not reflect the firm as a creditor. A review of case files revealed no documentary evidence to support the payment of Kshs.7,876,305 made to the firm of Advocates. The explanation provided by management of the

former County Council of Makueni that the fee notes were accidentally omitted during the preparation of the financial statements for 2011/12 was not valid.

Concluded court cases other than those verified at the Principal Magistrates Court-Makueni should be authenticated before any payment can be made.

Former Town Council of Wote

3.14 Improper handing over to the County Government

There was no proper handing over of the former Town Council of Wote assets and liabilities to the County Government as required by the Ministry of Local Government circular. This was apparently because the Transition Authority only required the former Council employees to hand over official documents, assets and office equipment in their possession.

3.15 Current Assets and Liabilities

(i) Cash and Bank Balances

Failure to close Bank Accounts

The former Town Council of Wote operated six (6) bank accounts namely; LATF account held at KCB; Kazi Kwa Vijana, General Rate Fund, Bus Park, Renewal Fund Fixed Deposit, and Contingency Fixed Deposit all held at Equity bank. However, the bank accounts were not on after the general elections as instructed by Transitional Authority vide their letter ref no. TA/7/5/ (20) dated 12 February 2013 and Ministry of Local Government circular ref MLG/1333/TY/ (52) dated 18 February 2013. The accounts were closed on 26 April 2013 and balances transferred to County Government account except for Renewal Fund and which had not been closed by 30/06/2013. The accounts should be closed and the funds transferred to County Revenue Account.

(ii) Debtors

The Council did prepare handing over report on debtors as at 28th February 2013. The debtors register maintained by the Council was not kept up to date in that details of primary records such as receipts and invoices were not entered in the registers. Schedules obtained from the County indicated that outstanding receivables totaled Kshs.12,454,389 as at 30th June, 2013. Further, the council had no management policies in place for debtors e.g. provision for doubtful debts. Debtors records should be maintained and updated as appropriate. Also, a debt collection policy should be developed by the County Government to enhance effective recovery of long outstanding receivables.

(iii) Creditors

The Council prepared a statement reflecting creditors' balances of Kshs.3,727,425 as at 28 February 2013. However, an updated creditor's ledger to record creditors transactions was not maintained, neither did the Council circularize the creditors to confirm balances. Further, invoices in respect of legal fee payable to a firm of Advocates and consultancy fees payable to firm of Associates amounting to Kshs.655,400 and Kshs.527,000 respectively, were not produced for audit confirmation. The County Government should maintain up-to date records of creditors and ensure that creditors are circularized, validated and confirmed before payments are made.

3.16 Fixed Assets Records

The former Town Council of Wote did not maintain a comprehensive Fixed Assets Register to record council assets. Further, valuation of assets was said to have been done but the report was not made available for audit. The assets schedule prepared on 28 February 2013 reflected motor vehicles valued at Kshs.7,375,120 but did

not take cognizant of depreciation expenses. These assets were not handed over to the County Government. A newly acquired tractor recorded in the register was not physically seen during audit verification and it was explained that it developed mechanical defects and recalled by CMC. However, the log book for the Tractor KBJ 843U had not been received from the dealer (CMC). This matter should be followed up and the vehicle returned to the County Government of Makueni which should also ensure that all assets of the former County Council are recorded, owned and secured.

3.17 Revenue Collection

Revenue totaling Kshs.3,202,289 was collected in January and February 2013 while only Kshs.2,936,870 was banked, resulting in under banking of Kshs.265,421. Proper systems should be put in place to ensure that revenue collected are promptly recorded and banked intact for proper accountability.

3.18 Other Findings

Re allocation of Local Authorities Transfer Funds (LATF)

The former Town Council of Wote received LATF amounting to Kshs.14,390,104 on 25 February 2013 out of the approved budget of kshs.36,888,213. However, out of the amount of Kshs.14,390,104, only Kshs.1,245,260 was spent on approved projects. The balance of Kshs.13,144,844 was applied in paying personal emoluments, debts and other expenses of recurrent nature, thereby denying all twelve(12) capital projects a chance to be implemented, contrary to the law and the approved budget. Funds appropriated for implementation of capital projects should not be diverted to other uses without approved reallocation.

Former Town Council of Mtito Andei

3.19 Improper handing over to the County Government

There was no proper handing over of the former Town Council of Mtito Andei assets and liabilities to the County Government as required by the Ministry of Local Government circular of 18 February, 2013. This was apparently because the Transition Authority only required the former Council employees to hand over official documents, assets and office equipment in their possession. The County Government should recall the Chief Officers of the defunct Local Authority and ensure that proper handing over is done. This will ensure that the incoming County Government receives full information regarding the assets and liabilities and other financial matters relating to the former Town Council.

3.20 Current Assets and Liabilities

(i) Cash and Bank Balances

The former Town Council of Mtito Andei operated three (3) bank accounts namely GRF, LATF and Kazi Kwa Vijana, all operated at Kenya Commercial Bank (KCB). All the accounts were closed 13 and 27 April, 2013 and a total of Kshs.562,174 transferred to Makueni County Revenue account. However, a board of survey to establish the correct cash on hand and at bank as at 28 February 2013 was not constituted.

(ii) Debtors

The council did not maintain an updated debtors Ledger to record movements of debtors and in particular plot rent/rates. Further, the council continued collecting revenue from the debtors without carrying out cut off procedures to reflect debts collected by the Town council and the County Government. Although, the council

reflected debtors amounting to Kshs.9,981,917 as at 30 June 2013, the transactions were not adequately recorded and updated. The County Government to maintain up-to date records of debtors and ensure that measures are put in place to collect revenue from the outstanding debtors.

(iii) Creditors

The council prepared a statement of Liabilities as at 28 February 2013 reflecting creditors' balance of Kshs.67,092,275. However, the council did not maintain an updated creditor's ledger to record creditor's transactions. Further, the same balance of Kshs.67,092,275 was still reflected as outstanding creditors as at 30 June 2013. The County Government to maintain up-to date records of creditors with relevant supporting payments. No Creditors should be paid without properly establishing that a service/good was correctly rendered or advanced to the council/county Government.

3.21 Fixed Assets Records

The Town Council of Mtito Andei did not maintain a detailed Fixed Assets Register to record council assets. As at 30 June 2012 the value of motor vehicles and furniture and equipment was Kshs.4,750,584. The councils did not code all its assets and indicate location for all the assets neither had valuation of assets been done. Further, there was no record of take-over by the county Government. The County Government of Makueni should ensure that all assets of the former County Council are recorded and secured by the Council.

3.22 Other Findings

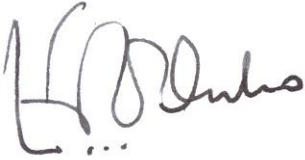
Expenditures

The former Town Council of Mtito Andei received LATF to fund capital projects within the town council to the tune of Kshs.7,084,671 on 22 February 2013. However, the council reallocated the projects fund to recurrent expenditure. Examination of payment vouchers revealed that the reallocation of funds was caused by an increment of employees' salaries through a Collective Bargaining Agreement which had not been contemplated at the budgetary stage. During the time of audit there was no evidence that authorized/effected the reallocation. Therefore the reallocation was not done within the law. The council should put in place a vote book and prepare supplementary budget where there are variances with the approved estimates.

3.23 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 leadership by officials of Transition Authority who had the responsibility to ensure a smooth and seamless transition process. The County Government should however ensure full control of functions, including revenue collection, recording and proper accounting for the same while awaiting guidance from the National Treasury based on the accounting and reporting systems to be developed by the Public Sector Accounting Standards Board in accordance with Section 194 of the PFMA, 2012. 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 appended.

A handwritten signature in black ink, appearing to read 'E. R. O. Ouko', with a stylized flourish at the end.

Edward R. O. Ouko, CBS

AUDITOR-GENERAL

05 December, 2013

DETAILED REPORT ON SPECIAL AUDIT REPORT FOR THE PERIOD ENDED 30 JUNE 2013 ON COUNTY GOVERNMENT OF MAKUENI EXECUTIVE OPERATIONS

1.0 Introduction

The operations of the Makueni County Government are subject to audit by the Auditor General in accordance with Section 229 (4), (5) and (6) of the Constitution of Kenya and the provisions of Section 23 of the Public Audit Act, 2003.

2.0 Audit Objectives

The following were the main audit objectives:

- Confirm existence of proper
- proper accountability of cash and bank balances before, during and after transition to the County Government.
- Confirm that revenue and expenditure were recorded and properly accounted for before, during and after the transaction period.
- Confirm that operational debtors and creditors were accurately recorded and transferred from the defunct local authority to County Government.
- Establish that assets taken over by the County Government are properly listed, exist and are being used to provide services to the County.
- Ensure that assimilation of the defunct local authority's staff with other county government staff is seamless and no ghost workers or irregular change of items have been imported in the new IPPD system.
- Ensure that the County Assembly and Executive Committees comply with the budget and that expenditures are properly charged to County Revenue Fund.

- Ensure that ICT system is not circumvented by manual system where IFMIS and G – Pay systems are fully implemented.
- Confirm that where manual systems are in use, proper accountability system is put in place and specific plans for system changeover exist.
- Confirm that procurement of goods and services is done in accordance with the Public Procurement and Disposal Act, 2005, and related 2006 Regulations.

3.0 Key Audit Findings

County Government of Makueni Executive

3.1 Failure to Take Over the Defunct Local Authorities

It was observed that, the County Government of Makueni had not taken over the assets and liabilities of the former local authorities in Makueni County. The county Government did not provide handing over memorandum to show what was taken over. The County government did not revalue the Assets taken over to reflect the market value. No board of survey was constituted to come up with accurate balances of Cash on Hand as well as the bank balances.

Recommendation

The Government should ensure that accurate statement of assets and liabilities are prepared upon which the handing over taking over should be effected.

3.2 Current Assets and Liabilities

(i) Debtors

During the period ended 30 June 2013, the County Government of Makueni did not validate or consolidate its debtors especially the debtors of the three defunct local authorities which totaled Kshs.121,572,468. However, appropriate systems

for recording debtors by the County Government should be developed to ensure accuracy of records.

Recommendation

Debt collection policy should be put in place to facilitate collection of County debts as and when they fall due.

(ii) Creditors

According to the statement of assets and liabilities as at 28 February 2013, the defunct local authorities had creditors totaling Kshs.70,819,700.

Recommendation

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 Records

There was no record provided to show the assets which were handed over to the County Government. During the period ended 30 June 2013, the County Government of Makueni did not validate or consolidate its Fixed Assets especially those relating to the three defunct local authorities. The fixed Assets balances for the period ending 30 June 2012 totaled Kshs.30,472,084.

Recommendation

Appropriate systems for recording Fixed Assets by the County Government should be developed to ensure accuracy of records.

3.4 Procurement of Goods and Services

Procurement of Hotel Services

The County Government of Makueni hired hotel conference facilities from Sai Rock Mombasa and the Pride Inn Hotel and Investments LTD in Nairobi in cash. This was through a single sourcing process. An amount of Kshs.864,000 for an eight-day workshop for the Members of the County Assembly was made vide Invoice No. PN-606 of 17 May 2013 and Cash Sale Receipt no. 21296 of 20 May 2013 was paid to Pride Inn Hotel and Investments LTD in Nairobi. No list of participants was attached to support the expenditure of Kshs.864,000. The County Government did not attach attendance register of the participants to fully support the payment to the hotels.

The County Government Spent Kshs.3,676,000 paying per Diem to Members of the County Assembly and technical staff and yet the Hotels had been paid full accommodation.

Recommendations

- i). Procurement regulations should henceforth be adhered to while awarding contracts.***
- ii). Recover the night out allowance paid from the participants.***

3.5 Implementation Status of Integrated Financial Management Information System (IFMIS) at County Treasury Makueni

Objective of Installing the System

The aim of connecting county government to IFMIS is to facilitate oversight via a single public financial management system. The IFMIS was not operational.

Though the National Treasury had deployed an officer to oversee full implementation of the system, the system was experiencing problems and was therefore not in use. An interview with The Head of County Treasury revealed that, staffs in the treasury were not ready to use the system since they had only covered some modules in a training that was not exhaustive.

Recommendations

The National Treasury should expeditiously see through full and successful installation of IFMIS and capacity building of the users.

Audit of Information and Communication Technology (ICT) Equipment

An audit of ICT department revealed the following:

- (a) The county government of Makueni has invested in desktop computers, laptop computers, network routers, network switches, a PABX, printers, scanners and overhead projectors, among others. Though some of the equipment, mainly those procured within the last few months, has warranty from the suppliers, the county government does not have preventive maintenance contracts in place for the equipment.
- (b) The equipment was not connected to a source of back up electrical power.
- (c) Access to the server room, which hosts critical and sensitive ICT equipment, was not well restricted and that equipment like network routers, switches and the PABX, were not mounted on a rack cabinet to safeguard against exposure to potential hazards.
- (d) Some of the county government's pre-existing computers are running Microsoft windows operating systems and Microsoft office software that are not genuine. This exposes the county government to the hefty fines levied by Microsoft for use of counterfeit software which is part of Microsoft's anti-

piracy measures, and to potential litigations. It is also against the government policy.

- (e) Some pre-existing computers are not installed with anti-virus thus putting sensitive and confidential information at risk of unauthorized access or destruction.
- (f) The county government does not have a maintenance contract for its website.
- (g) Some staff in ICT department were employed on temporary basis and yet they have access to ICT equipment, systems. Date and information.

Recommendations:

- i). The county government puts in place preventive maintenance contracts for all its ICT equipment so as to reduce the chance of failure and thus preserve the inherent reliability of equipment, or so as to facilitate detection of failure within shortest time possible.***
- ii). Given the critical need for uninterruptible power supply for ICT equipment due to their sensitivity to power fluctuations, and with the intermittent and frequent power outages experienced in Wote Town, it is recommended the county government urgently invest in power backup solution for its ICT equipment through the installation of uninterruptible power supply (UPS) system or trace unit, as well as a stand by generator.***
- iii). Invest in the following***
- iv). A strong server room door with access control to restrict access to the server room.***
- v). An equipment rack cabinet to safeguard the network equipment, PABX and any other equipment that the government will acquire.***
- vi). Cooling system (air conditioners) to protect equipment from overheating.***

vii). Installing genuine Microsoft software on all the computers running on counterfeit software.

viii). Installing anti-virus.

Given that the county government's internal structures are still in formation, there is need to put in place a support contract for the county government website. This will ensure that as the county government evolves, there is adequate technical support to ensure that any changes are reflected swiftly on the website, which is the online interface between the county government and its stakeholders.

Given the sensitivity of the information managed by the ICT department and thus the need for greater responsibility for those handling the same, it is recommended that the County Government ensure that all staff assigned to the ICT department are on permanent basis. This will enhance their level of responsibility and accountability.

3.6 Other Findings

(i) Irregular Holding of Two Public Offices

It was observed that a member of the executive committee who, prior to his appointment, was an employee with the ministry of health (formerly ministry of medical services) continued drawing salaries from the former employer. As per the Government regulations, he was immediately upon appointment to a political office required to resign. However, an IPPD Data Reference Sheet obtained from the Ministry of Medical Services showed that the officer, who is the current Minister for Health in the County of Makeni, still holds his position in the National Government, Ministry Of Health. He continues to draw two salaries, from both the National Government and the County Government.

As per section G.25 (1) of the Code of Regulations, this amount to loss of public funds through neglect or fault which constitutes fraud and the officer may be sued in court.

Recommendation

Section G.30 (1) of the Code of Regulations states that where an officer has received any erroneous payment, he shall be liable to refund to the Government the amount of such payment. The irregular payment of the salary should be recovered from the County Secretary who authorized the expenditure if the amount is not recovered from the officer.

(ii) Unauthorised Withdrawal of Funds From the Revenue Account held at KCB Makueni- Kshs.42,415,277

Examination of the bank statements revealed that, the County Government of Makueni made withdrawal of Kshs.42,415,277 from the County Revenue Account without the approval of the county assembly and the controller of budget.

Recommendations

These funds be recovered from the voted provision and returned to the County Revenue Fund Bank Account.

(iii) Irregular Payment oh Sitting Allowances to Members of the County Assembly

Members of Makueni County Assembly drew allowances totaling Kshs.425,000 for committee meetings that did not take place . Examination of the committee meetings attendance register revealed that the MCAs claimed sitting allowances for sessions that did not take place on the days they quoted. In one instance, a

member of the public accounts/investment committee drew sitting allowances on dates when he drew night out allowances for having attended a workshop at Mombasa.

Recommendations

Recover the overpaid allowance from the member/officers salary

Former County Council of Makueni Financial Operations from 1 January to February 2013

3.7 Improper Handing Over to the County Government

There was no proper handing over of the former County Council of Makueni assets and liabilities to the Transition Authority as required by the Ministry of Local Government circular.

Recommendation

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

3.8 Current Assets and Liabilities

(i) Cash and Bank Balances

Failure to close Bank Accounts

Former County Council of Makueni operated seven (7) banks namely:-

Salaries Account held at Equity Bank, General Revenue Fund Account held at Kenya Commercial Bank, Local Authority Transfer Fund Account held at Kenya Commercial Bank, General Revenue Fund Account held at Kenya Commercial Bank, Renewal Account held at Kenya Commercial Bank, European union account

held at Kenya Commercial Bank Kazi Kwa Vijana account held at Kenya Commercial Bank.

All these bank account should have been closed by 4 March 2013. However, it was noted that the following bank accounts remained operational after 4 March 2013:

| Account | Date Account Closed | Balance as at the closure of the account | Amount transferred to the County Government of Makueni |
|---------------------|----------------------------|---|---|
| EQUITY SALARIES A/C | 10/7/13 | 146,834.00 | 146,834.00 |
| EQUITY GRF | 10/7/13 | 59,716.68 | 59,716.68 |
| LATF | 9/7/13 | 32,692.75 | 0.00 |
| KCB GRF | 9/7/13 | 0.00 | 0.00 |
| RENEWALS | 29/4/13 | 34,550.00 | 34,550.00 |
| European Union | 9/7/13 | 58,456.00 | 58,456.00 |
| Kazi Kwa Vijana | 29/4/13 | 66,200.00 | 66,200.00 |

No board of survey on cash was constituted to count and come up with accurate cash on hand and bank balances. Further, the cash book was not ruled off to show clear demarcation between the defunct County Council of Makueni on one hand and the Transition Authority, the Makueni County Government on the other. The balances would be the opening balances for the County Government.

Recommendations

- i. The accounting officer should ensure that all accounts are closed and the balances in those accounts thereof are transferred to the county revenue account.***
- ii. Transition Principal Officer Finance shall ensure that reconciliation is carried out as per section 28 of the County Governments Public Finance Management Transition Act, 2013 and explanation given to establish the correct bank balances that are to be transferred to the revenue fund account.***

(ii) Debtors (Property Rates)

The outstanding debtors balance as at 31 December 2012 stood at Kshs.109,373,586. Out of this, Kshs.8,713,856 became due on 31 December 2012 whereas the balance of Kshs.100,659,729 relates to 31 December 2011 and prior years. The balance as at 28 February 2013 was Kshs.109,215,105 meaning that only debtors during the period between 1 January and 28 February 2013 amounting to Kshs.158,481 were receipted. The outstanding balance as at 30 June 2013 was Kshs.109,118,079 indicating that further increase of Kshs.97,026 between 28 February and 30 June 2013. The former county council failed to put up proper debt recovery mechanism. In addition, erroneous data capture resulted to inaccurate debtors' ledger with duplications and inconsistencies with reference to the actual owners of the land and respective debt owed to the former county council. The accuracy and completeness of the balances could not be confirmed since the Council did not provide demand notices or invoices to show the primary records used to record the transactions.

Recommendations

It is recommended that all the errors in the debtors' ledger are corrected to avoid all the duplications and omissions if any. This will ensure that, the county government of Makueni takes over the correct debtors. Also, the county government of Makueni should put up proper debt recovery mechanisms.

3.9 Procurement of Goods, Works and Services

(i) Procurement of goods on Cash basis For the Construction of Two Ensuite Washrooms

A Cashier, was issued with an imprest of Kshs.3,839,716 vide Cheques No.2214 of Kshs.1,919,858 and 2219 of Kshs.1,919,858 in the month of March 2013. As reflected in the Cash book, the imprest was for the construction of two washrooms. The payments vouchers vide which the imprest was surrendered were not made available for audit purposes.

The construction of the washrooms was not subjected to any competitive procurement process but rather the direct procurement of the materials and labor was done on cash. With no technical drawings, costed Bills of quantities and supporting schedules of materials, it was not possible to establish how the cost of each washroom was determined at Kshs.1,919,858. In addition, there was no justification of direct procurement and the same was not brought to the attention of PPOA.

A site visit on 3/9/2012 revealed the existence of the two washrooms. However with no payments details, it was not possible to establish whether value for money was obtained.

Though urgency was cited as the reason for such direct procurement procedures, due process was not followed as required by the public procurement act and regulations.

Recommendations

It is recommended that all the documentation, including the technical drawings, estimated cost as per bills of quantities, schedules of materials and supported payment vouchers be made available for audit purposes.

(ii) Payments for Undelivered Goods and Services

An amount of Kshs.4,181,351 was purportedly to have been spent on capital projects for materials and labour costs for some projects. However, the building materials ordered for and purportedly delivered on sites and inspected by the committee of inspection and acceptance on diverse dates as evidenced by LPOs, inspection minutes and delivery notes attached in support of the payment vouchers. Some of these projects were supposedly completed upon which the committee of inspection and acceptance was to issue certificates of practical completion. It was on these certificates that the labour cost for construction was paid for.

A physical verification of these projects carried out on 29/08/2013 and on 2/09/2013 revealed that:-

- i. The constructions were never executed.
- ii. The building materials allegedly delivered on site were in fact not delivered.
- iii. As such no labour costs were really incurred by the former County Council of Makueni.

- iv. The certificates of completion issued by the committee of inspection and acceptance were therefore falsified with the obvious intentions of irregularly drawing public funds.

Recommendations

Disciplinary action be taken and Loss of funds to be surcharged or recovered from the then persons responsible. This was an offence under Section 45(2) b of the anti-corruption and economic crimes 2003 revised 2012.

3.10 Non-Current Assets

Motor Vehicles and Office Equipment.

The former county council of Makueni hired a valuer in financial year 2011/2012, to carry out valuation for its assets. The report, dated 14 march 2012 valued motor vehicles and office equipment at Kshs.25,721,500. Physical verification carried out on the motor vehicles and office equipment revealed no discrepancy between the register and the physical assets. There was no record provided to show the assets were handed over to the County Government.

Recommendations

It is recommended that the handing over of all the assets of the former county council to the county government of Makueni be done by the former accounting officers of the defunct local authority.

3.11 IPPD Payroll

The County Council of Makueni did not prepared handing over report containing the names of employees to be handed over to the County Government. Further, comparison between December 2012 and January 2013 payrolls revealed 31

additional staff in various posts. It was observed that, the officers were deployed in December and paid their part salaries vide payment vouchers. They were then integrated in the payroll in the month of January 2013. Examination of correspondences and circulars revealed that the recruitment process started on 15 July 2012.

Recommendations

The county government of Makueni should ensure that compliance with the law pertaining to recruitment and employment is adhered to.

3.12 Revenue Collection

Failure to capture all Revenue Collections in LAIFOMS

Revenue collected and reflected in manual monthly receipts in 2011/2012 financial year was Kshs.141,560,985 while revenue monthly report in LAIFOMS for financial year 2012/13 revealed that the former County Council of Makueni and County Government of Makueni collected revenue totaling Kshs.132,745,978 in the same period. This was Kshs.8,815,007 less than what had been reflected in manual monthly receipts abstract maintained at the accounts section. Inspection of the bank statements revealed the banking during the year as Kshs.141,466,234 creating an under banking or unexplained difference of Ksh.94,751 It was also observed that the County Government continued collecting revenue through receipt books inherited from the defunct County Council. The County Government did not first of all take the receipt books on charge. The Counterfoil Receipt Book Register was not ruled off to indicate the taking over of the functions by the County Government.

Recommendations

- i. The County Government of Makueni should ensure that the revenue section is adequately staffed to avoid such backlogs which may create opportunities for misappropriation of revenue funds.*
- ii. The data is captured to reflect all the revenue for the financial year 2012/13.*

3.13 Other Findings

(i) Reallocation of Local Authorities Transfer Funds (LATF)

The former County Council of Makueni received LATF funds of Kshs.132,860,770 on 5 March 2013. 37% of the amount Kshs.132,860,770 disbursed i.e. Kshs.49,158,484.90 was therefore supposed to fund some of the capital projects identified in the Financial Year 2012/13 approved estimates. However, not all funds were utilized on project but were reallocated to recurrent expenditure.

At the time of the Audit, no evidence on Authority to effect such a reallocation was made available for verification. It therefore means that reallocation was not done within any laws or regulations.

The projects must have been identified and prioritized for funding on a public need basis. It therefore means that, so long as the projects remain undone, the need of the members of the public remain unattended to.

Recommendation

The County Government of Makueni should consider these projects for funding.

(ii) Payment for Accrued Legal Fees

Examination of the payment vouchers revealed that Kshs.7,876,305 was paid to a firm of Advocates during the financial year 2012/13. The amount was paid to clear accrued legal fees charged to the former Council vide invoices (fee notes) dated 19/6/2012 and received by the former Council on 21/6/12. The statement of financial position as at 30 June 2012 did not reflect the firm to Advocates as a creditor. It therefore means that, at the closure of Financial Year 2011/2012, there were no unsettled bills from the advocate. Inspection of the case files revealed that, there was no documentary evidence to support the payments made during the period. The management of the former County Council of Makueni indicated that the fee notes were accidentally not considered during the preparation of the financial statements for the Financial Year 2011/12.

Recommendations

Cases in courts other than those verified at The Principal Magistrates Court-Makueni should be authenticated on which payments can be made.

Special Audit on the Former Town Council of Wote

3.14 Improper handing over to the County Government

There was no proper handing over of the former Town Council of Wote assets and liabilities to the County Government as required by the Ministry of Local Government circular. This was apparently because the Transition Authority only required the former Council employees to hand over official documents, assets and office equipment in their possession.

Recommendation

The County Government should recall the Chief Officers of the defunct Local Authority in order to ensure that proper handing over is done. This will ensure that the incoming County Government will have full information regarding the assets and liabilities and other financial matters relating to the former Municipal Council.

3.15 Current Assets and Liabilities

(i) Cash and Bank Balances

Failure to close Bank Accounts

The former Town council of Wote operated six (6) bank accounts namely; LATF bank A/C KCB, Kazi Kwa Vijana A/C Equity, General rate fund A/C Equity, Bus park A/C Equity, Renewal fund Fixed Deposit A/C Equity and Contingency Fixed Deposit A/C Equity.

However, the defunct council did not close the bank accounts on 04/03/2013 as per Transitional Authority ref NO TA/7/5/(20)dated 12 February 2013 and ministerial circular ref MLG/1333/TY/(52)dated 18 February 2013 respectively.

| Account | Date closed | Account | Balance as at close of account | Amount transferred to the Government account |
|-----------------|--------------------|----------------|---------------------------------------|---|
| LATF KCB | 26/04/2013 | | 2,887,333 | 2,887,333 |
| KKV Equity | 26/04/2013 | | 129,697 | 129,697 |
| GRF Equity | 26/04/2013 | | 251,035 | 251,035 |
| Bus Park Equity | 26/04/2013 | | 129,147 | 129,147 |
| Renewal fund | | - | 225,087.50 | - |

| | | | |
|----------------------------|---|-----------|---|
| Equity(FDR) | | | |
| Contingency Equity(FDR) | - | 3,359,318 | - |

Further, the council had two (2) fixed deposit accounts at Equity bank for Renewal fund and Contingency respectively. These accounts had not closed as at 30/06/2013.

Recommendation

The officials who approved the withdrawals should be made to clearly explain why they disregarded the law, recoveries made for irregular expenditures incurred.

(ii) Debtors

The Council did prepare handing over report on debtors as was required. The debtors registers maintained by the Council was not kept up to date. Details of the primary records such as receipt, invoice were not entered in the ledgers.

Schedules obtained from the council as at 30/06/2013, shows that the council had huge outstanding receivables totaling to Kshs.12,454,389 as follows:-

| Institution | Amount |
|---------------------------|---------------|
| i. Wote Town Centre plots | 987,785.00 |
| ii. Wote South plots | 3,092,156.00 |
| iii. Wote Site plots | 1,299,080.00 |
| iv. Nziu/Mumbuni plots | 2,336,987.00 |
| v. Kako plots | 913,089.00 |
| vi. Kikumini plots | 58,401.00 |

| | | |
|-------|----------------------|-----------------------------|
| vii. | Muvau plots | 1,239,347.00 |
| viii. | Kilala/kaumoni plots | <u>1,997,544.00</u> |
| | Total | <u>12,454,389.00</u> |

Further, the council had no management policies in place for debtors e.g. provision for doubtful debts.

Recommendation

The County Government to maintain up-to date records of debtors and ensure that measures are put in place to collect revenue from the outstanding debtors.

(iii) Creditors

The Council prepared a statement reflecting creditors' balances of Kshs.3,727,425 as at 28 February 2013. The council did not maintain an updated creditor's ledger to record creditors transactions neither did the council circularize the creditors to confirm balances. Further, the council did not provide invoices in respect of legal fee payable to a firm of and advocates and consultancy fees payable to a firm of associates amounting to Kshs.655,400 and Kshs.527,000 respectively. The schedule of the creditors is as tabulated below.

| | Name | Amount |
|------|--------------------|----------------------------|
| i. | Lap trust | 2,495,025.00 |
| ii. | Mwema & associates | 527,000.00 |
| iii. | M.B Musau | 655,400.00 |
| iv. | Zacharia Ngaa | <u>50,000.00</u> |
| | Total | <u>3,727,425.00</u> |

Recommendation

- ***The County Government to maintain up-to date records of creditors with relevant supporting payments.***
- ***No Creditors should be paid without properly establishing that a service/good was correctly rendered or advanced to the council/county Government.***

3.16 Fixed Assets Records

The former Town Council of Wote did not maintain a comprehensive Fixed Assets Register to record council assets. Further, valuation of Asset was done but the report was not made available for Audit. The Asset schedule prepared on 28 February 2013 had motor vehicles valued at Kshs.7,375,120 but did not take cognizant of the depreciation. The council did not hand over its Assets to the County Government as per the law. A physical verification exercise revealed that a tractor recorded in the register was not seen. However it was explained that it developed mechanical defect and recalled by CMC. In addition, it was observed that the log book for newly acquired Tractor KBJ 843U had not been received from the dealer (CMC).

Recommendation

The County Government of Makeni should ensure that all assets of the former County Council are recorded and secured by the Council.

3.17 Revenue Collection

A scrutiny of banking revenue revealed that there was under banking of Kshs. 265,421 as shown below:

| Month | Total Collection | Banking | Under banking | Over banking |
|----------------|-------------------------|----------------|----------------------|---------------------|
| January, 2013 | 1,605,302 | 1,641,417 | - | 36,111 |
| February, 2013 | 1,596,987 | 1,295,453 | 301,532 | - |

Further comparison of revenue collection between January- February 2013 and January- February 2012 reveals the following;

| Month | 2013 | 2012 | Variance | Percentage |
|--------------|-------------|-------------|-----------------|-------------------|
| January | 1,605,302 | 1,692,738 | (87,436) | 5.2 |
| February | 1,596,987 | 2,308,623 | 711,623 | 30.8 |

Recommendations

- i). The County Government should ensure that a receipt cashbook is maintained where revenue collected are promptly recorded and banked.*
- ii). The County Government should put in place strong internal control system to ensure that there is proper accountability at every stage in the revenue collection cycle.*
- iii). Revenue collection control sheets should be maintained by the Revenue Officer, who should ensure that official receipts (Miscellaneous Receipts) are issued to revenue collectors whenever revenue is surrendered.*

3.18 Other Findings

(i) Reallocation of local Authorities Transfer Funds (LATF)

The former town council of Wote received LATF amounting to Kshs.14,390,104 on 25 February 2013 out of the approved budget of Kshs.36,888,213. However, out of the amount of Kshs.14,390,104, actual amount spent on approved projects was Kshs.1,245,260. Further, examination of payment vouchers revealed that contrary to the law and the approved budget, LATF funds amounting to Kshs.13,144,844 was applied in paying personal emoluments, debts and other expenses of recurrent nature, thereby denying all capital projects a chance to be implemented.

Recommendation

The council should put in place a vote book and prepare supplementary budget where there are variances with the approved estimates.

(ii) Non-implementation of LATF projects

During the year under review, the total budget was set at Kshs.15,600,000 for implementation of capital projects. However the actual amount spent on projects was Kshs.1,245,260 for the approved project (Nthangu sec. school) but the rest was diverted to recurrent expenditures. There was no resolution by the defunct council to divert these funds to recurrent expenditures. Projects not implemented were as follows:-

| Project Name | Amounts | Description |
|-------------------------|----------------|-----------------------------|
| 1. Kyumu Sec School | 1,200,000.00 | lab equipment |
| 2. Kangondu Polytechnic | 700,000.00 | Construction of poly |
| 3. Nziu Dispensary | 700,000.00 | completion of dispensary |
| 4. Pit Latrine Mangauni | 400,000.00 | construction of pit latrine |

| | | |
|------------------------------------|--------------|------------------------------|
| 5. Mangauni Pri. School | 300,000.00 | rehabilitation of classroom |
| 6. Mbimbini Pri School | 700,000.00 | construction of classroom |
| 7. Installation of security lights | 800,000.00 | Erection of flood light wote |
| 8. Tree planting | 200,000.00 | tree planting |
| 9. Town C of Wote | 3,500,000.00 | Tractor &Trailer |
| 10. Town C of Wote | 1,500,000.00 | Extension of c office |
| 11. Town C .of Wote | 4,000,000.00 | Valuation roll |
| 12. Town C of Wote | 300,000.00 | Computerization |

Recommendation

- i. The County Government should ensure that no re-allocation of funds is done without prior authority*
- ii. The council should adhere to section 212 and 214 of local government Act CAP 265.*

Special Audit on the Former Town Council of Mtitio Andei

3.19 Improper handing over to the County Government

There was no proper handing over of the former Town Council of Mtitio Andei assets and liabilities to the County Government as required by the Ministry of Local Government circular. This was apparently because the Transition Authority only required the former Council employees to hand over official documents, assets and office equipment in their possession.

Recommendation

The County Government should recall the Chief Officers of the defunct Local Authority in order to ensure that proper handing over is done. This will ensure that the incoming County Government will have full information regarding the

assets and liabilities and other financial matters relating to the former Town Council.

3.20 Current Assets and Liabilities

(i) Cash and Bank Balances

The former Town Council of Mtito Andei operated three (3) bank accounts. The following observations were made upon scrutiny of the Council's bank records.

Closure of Bank Accounts:

KCB – GRF Account closed on 27/04/2013. Balance of Kshs.543,632 as at closure. Transferred to KCB Makueni County Revenue Account.

KCB – LATF Account closed on 13/04/2013. Balance Kshs.6,020 as at closure. Transferred to KCB Makueni County Revenue Account.

KCB KKV Account closed on 13/4/2013. Kshs.12522 transferred to KCB Makueni County Revenue Account.

The Council did not constitute a board of survey to establish the correct cash on Hand as at 28 February 2013.

Recommendation

The officials who approved the withdrawals should be made to clearly explain why they disregarded the law, recoveries made for irregular expenditures incurred.

(ii) Debtors

The council did not maintain an updated debtors Ledger to record movements of debtors and in particular plot rent/rates. Further, the council continued collecting revenue from the debtors without carrying out cut off procedures to reflect debts

collected by the Town council and the County Government. Although, the council reflected debtors amounting to Kshs.9,981,917 the transactions were not adequately recorded and updated.

Recommendation

The County Government to maintain up-to date records of debtors and ensure that measures are put in place to collect revenue from the outstanding debtors.

(iii) Creditors

The council prepared a statement of Liabilities as at 28 February 2013 reflecting creditors' balance of Kshs.67,092,275. However, the council did not maintain an updated creditor's ledger to record creditor's transactions. Further, the same balance of Kshs.67,092,275 was still reflected as outstanding creditors as at 30 June 2013.

Recommendation

The County Government to maintain up-to date records of creditors with relevant supporting payments.

No Creditors should be paid without properly establishing that a service/good was correctly rendered or advanced to the council/county Government.

3.21 Fixed Assets Records

The Town Council of Mtito Andei did not maintain a detailed Fixed Assets Register to record council assets. As at 30 June 2012 the value of motor vehicles, furniture and equipment was Kshs.4,750,584. The councils did not code all its

assets and indicate location for all the assets neither had valuation of assets been done. Further, there was no record of take-over by the county Government.

Recommendation

The County Government of Makueni should ensure that all assets of the former County Council are recorded and secured by the Council.

3.22 Other Findings

Expenditures

The former Town Council of Mtito Andei received LATF to fund capital projects within the town council to the tune of Kshs.7,084,671 on 22 February 2013 as detailed below:-

| Name | Description | Amounts |
|--------------------------|-------------------------------|----------------------------|
| 1) Mambu mkt | construction of stock yard | 900,000.00 |
| 2) Ivingo mkt | construction of public toilet | 350,000.00 |
| 3) Kambu mkt | construction of social Hall | 1,250,000.00 |
| 4) Local Area Networking | purchase of laptop | 1,500,000.00 |
| 5) Town office | renovation of Council chamber | 2,000,000.00 |
| 6) Town office | purchase of dust bins | <u>1,084,675.00</u> |
| | TOTAL | <u>7,084,675.00</u> |

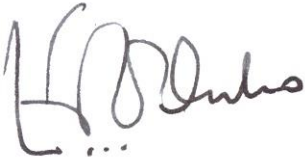
However, the council reallocated the projects fund to recurrent expenditure. Examination of payment vouchers revealed that the reallocation of funds was caused by an increment of employees' salaries through a Collective Bargaining Agreement which had not been contemplated at the budgetary stage. During the time of audit there was no evidence that authorized/effected the reallocation. Therefore the reallocation was not done within the law.

Recommendation

The council should put in place a vote book and prepare supplementary budget where there are variances with the approved estimates.

3.23 Conclusion

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

A handwritten signature in black ink, appearing to read 'E. O. Ouko', with a horizontal line underneath.

Edward R. O. Ouko, CBS
AUDITOR-GENERAL

05 December, 2013