

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

REPORT

OF

THE AUDITOR–GENERAL

ON THE

FINANCIAL OPERATIONS

OF

THE COUNTY GOVERNMENT OF
NYAMIRA AND ITS
DEFUNCT LOCAL AUTHORITIES

FOR THE PERIOD
I JANUARY TO 30 JUNE 2013

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

1. EXECUTIVE SUMMARY

1.1 Introduction

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 Further, the County Government Act, 2012 Section 134 (1) repealed the Local Government Act, Cap 265, and thus effectively dissolving all the 175 Local Authorities and creating 47 County Governments.

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

1.2 Audit Objectives

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

- ✓ The 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

1.2.2 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.

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

1.3 Summary of key findings

1.3.1 Nyamira County Executive and County Assembly

1.3.1.1 Expenditure of Revenue at source

Review of revenue collection records for four (4) months revealed that Kshs.10,983,764.33 was used at source. A total of Kshs.21,973,668.00 was collected from March to June 2013 indicated that and only Kshs.11,898,764.33 was in the bank account. This balance in the bank also included sale of Country Government tender documents.

1.3.2 Town Council of Keroka

1.3.2.1 Non closure of bank accounts

The six (6) KCB accounts operated by the former Town Council had not been closed by 30 June 2013 in total disregard of the County Governments Public Finance Management Transition Act, 2013 which required that the bank accounts be closed and reconciliations done within three months w.e.f 5 March 2013.

1.3.2.2 Overdraft

Further two bank accounts held by the Town Council of Keroka had overdraft balances of Kshs.997,719.00 and Kshs.2,795.00 in respect of General Rate Fund Account No. 1106590961 and Road Maintenance Fuel Levy Account No. 1102227358 respectively. The County should close all these accounts as required and clear the overdrafts.

1.3.2 Town Council of Nyansiongo

1.3.3.1 Non closure of bank accounts

The defunct Town Council of Nyansiongo operated five (5) bank accounts with two commercial banks in Keroka, one bank account No. 1102215155 held with KCB with a balance of Kshs.261,654.50 had not been closed on 30 June 2013.

1.3.2.2 Overdraft

There was an overdraft balance of Kshs.261,654.50 in respect of Road Maintenance Fuel Levy. The County should close these accounts as required by and clear the overdrafts.

1.3.3 Nyamira County Council

The Council operated five bank accounts. Examination of the bank accounts and the cash book for the council revealed that a KCB Account No. 031256970869 though closed had a balance of Kshs.107,281.50, which had not been transferred to a County revenue collection account while bank reconciliations for this account were not done by the Town Council of Nyamira.

1.3.4.1 Current assets and liabilities

i) No Bank Reconciliation and non- banking

The Council operated three bank accounts. Examination of the bank accounts and the cash book for the council revealed that the County Council did not prepare bank reconciliations for all the bank accounts it operated. Revenue collected was also not banked into an exchequer account operated by the county government.

ii) Bank Overdraft

Town Council of Keroka and Town Council of Nyansiongo General Rate fund accounts under Kenya Commercial Bank had running bank overdraft of Kshs.997,719.00 and Kshs.261,654.00 respectively. A further bank overdraft of Kshs.2,795.00 was reflected under the account of Road Maintenance levy with Kenya Commercial Bank relating to Town Council of Keroka. The existing and running bank overdraft need to be cleared and the accounts closed.

iii) Creditors

Outstanding operational creditors amounting to Kshs. 290,272,990.00 were awaiting takeover by the County Government as at 30 June 2013 in the four defunct local authorities; Town Council of Keroka, Town Council of Nyansiongo, Town Council of Nyamira and Nyamira County Council.

1.3.5 Town Council of Keroka

The audit also revealed that, the Town Council of Keroka (defunct) had debtors amounting to Kshs.3,600,000.00. However, documents in support the composition of the same were not availed for audit.

1.3.6 Town Council of Nyansiongo

The Town Council of Nyansiongo had debtors amounting to Kshs.23,328,568.00. However, documents in support of the same were not availed for audit verification..

1.3.7 Town Council of Nyamira

The Town Council of Nyamira had debtors' balance of Kshs.243,300.00 in respect of plot rent as at 30 June 2012 as reported in the audited financial statements. However, the report made to the County Government of Nyamira did not include this amount making the existence of these debts doubtful. The details of these plot rent defaulters were also not provided during the audit.

A review of debtors' records maintained by Nyamira County Council as at 30 June, 2013 indicated that the outstanding debtors amounted to Kshs.39,555,260.00. The figure comprised an amount of Kshs.21,948,116.00 in respect of plot defaulters and Kshs.17,607,140.00 for land rates. The county government of Nyamira should adopt the list of debtors and put in place adequate systems to recover the same.

1.3.8 Town Council of Keroka

Examination of revenue collection records indicated that Kshs.11,127,885.00 was collected between month compared to Kshs.9,200,280.00 which was banked for the same period leading to expenditure at source of Kshs.1,927,605.00.

i) Comparison of Revenue for January 2013 to June 2013 against January 2012 to June 2012 for Keroka

It was noted that revenue collected for the months of January to June 2013 compared to January to June 2012 was Kshs.11,169,575.00 and Kshs.11,260,864.00 respectively reflecting a drop of Kshs.91,289.00 representing 8% decrease. The management explanations that the drop in revenue collections was due to the effects of national elections which brought disruptions on market times was not satisfactory. Management should put in place a robust revenue collection system to boost revenue generation for the County.

1.3.8.1 Town Council of Nyansiongo

It was noted that revenue collected for the months of January to June 2013 compared to January to June 2012 was Kshs.3,715,570.00 and Kshs.4,512,102.00 respectively reflecting a drop of Kshs.796,532.00 representing 18% drop in revenue.

The management explanations that the drop in revenue collections was due to the effects of national elections which brought disruptions on market times was not satisfactory. Management should put in place a robust revenue collection system to reduce losses.

1.3.9 Information systems assessment

1.3.9.1 Hardware

Nyamira County had received twenty (20) computers and (19) UPS from The National Treasury (IFMIS Department) which was solely to be used for IFMIS and one (1) from CBK for G-Pay. The county also received one scanner. The county had also been given fifteen (15) modems from the National Treasury. The County has also one server for LAIFOMS and one for IPPD. The audit found that although the County had received this facilitation for Information Systems, IFMIS connectivity was unstable at the time of audit.

1.3.9.2 Integrated Financial Management Information System (IFMIS)

IFMIS operations were being carried out at Nyamira County Assembly where plan to budget module was in operation. As at 8 October 2013, all payments were being processed manually. No explanation was given why the IFMIS system was not being used for processing payments.

1.3.9.3 Training of County Staff

The audit found that Ten (10) staffs had been trained on IFMIS and one (1) officer on use of IPPD.

However, no staff from ICT department has been trained on the same to provide technical support.

1.3.9.3 Local Authority Integrated Financial Operations Management System (LAIFOMS)

Although the LAIFOMS had been installed in Nyamira County Council, revenue collection processing was still being done manually in all other Sub Counties. We could not extract data for our analysis from LAIFOMS due to power outage and LAIFOMS server could not start up.

The County had no alternative source of power to enable continuity of services in case of disruption. Due to frequent power outages, there is a risk of LAIFOMS server crashing and the county may lose vital information.

1.3.9.4 Integrated Payroll and Personnel Database (IPPD)

The county had successfully implemented IPPD system which was being used to process payroll and human resource data from May 2013.

The IPPD training had been offered to only one officer who was the payroll manager. There was lack of segregation of duties in the IPPD system as the payroll manager had exclusive rights and privileges to the system.

It was also reported that DPM support team was not responding adequately and timely to issues raised by the payroll manager.

The ICT department in the County was not involved in the IPPD implementation hence they could not assist adequately in the system issues.

Data analysis on the IPPD system revealed that the system lacked controls to ensure validity checks, completeness checks and duplicity checks. The following anomalies observed;

- 13 officers had no date of posting
- 12 officers had incorrect tax pin
- 2 officers had incorrect ID
- 36 officers had no incremental date
- 2 officers had duplicate accounts

1.3.9.5 IT Control Environment and ICT Governance

Review of the IT Control Environment and ICT Governance showed that the County lacked IT governance documentations such as; ICT Strategic Plan, ICT policies and procedures, the ICT assets register, Business Continuity Policies (BCP) and Disaster Recovery Plans (DRP). There was also no ICT Steering Committee in place. Further the County had only one ICT staff who is responsible for supporting the ICT applications.

1.4 Conclusion

The forgoing observations clearly indicate that the process of taking over of assets and liabilities, including staff of the former Councils was not properly handled due to apparent lack of leadership by officials of Transition Authority who had the responsibility to ensure a smooth and seamless transition process. The County Government should however ensure full control of functions, including revenue collection, recording and proper accounting for the same while awaiting guidance from the National Treasury on the accounting and reporting systems to be developed by the Public Sector Accounting Standards Board in accordance with Section 194 of the PFA Act 2012. Further, Expenditure should be incurred in accordance with the requirements of the Public Finance Management Act 2012 and for the benefit of the taxpayers.

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

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

Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

3 March 2014

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

2 MAIN REPORT

2.1 Introduction

The audit was to verify County Government preparedness to receive and utilize devolved funds before, during and after transition period in addition to the transfer of assets, liabilities and staff from the four defunct local authorities.

2.2 Terms of Reference

The Office of the Auditor-General is an independent office mandated by the constitution in (Article 229) to audit the accounts of the National and County Government. In this regard the office planned an audit for the Nyamira County with the following terms of reference:

- Verification of cash and bank transactions held at various different accounts in the defunct Local Authorities during the period of transition between 5 March and 30 June 2013.
- Examination of transactions of defunct Local Authorities between 01 January 2013 to 30 June 2013.
- Examination of transactions of the County Government and County Assembly between 5 March and 30 June 2013.
- Check the closure of bank accounts as directed by Transitional Authority.
- Check Proper procurement procedures as per procurement Act 2005 & 2006.
- Check Current debtors and suppliers balances.
- Implementation of the IFMIS and G-Pay as opposed to manual system.
- Check the status and usage of the Motor vehicles and equipment.
- Confirm whether County bank accounts were opened on 04 March 2013.
- IPPD Payrolls – Check for Ghost workers in payroll.
- Irregular borrowings, overdrafts and payment of non-existing loans.
- The audit was conducted in the month of August and September, 2013

2.3 Methodology

The approach used in carrying out this audit included the following:

- Interviews with key officers at the County headquarters and defunct Local Authorities.
- Review of applicable legislation and regulations
- Assessment of internal controls.
- Examination of payment vouchers, cash book, vote book, bank statements, bank slips, tender and contract documents, stores records and other related records.
- Review of minutes for the meetings where there were resolutions affecting management of cash.
- Physical inspection/verifications
- Verification of the bank reconciliation statements as at 30 June 2013.

3 DETAILED FINDINGS

3.1 County Executive

3.1.1 Opening of Collection Account

Nyamira County Government opened Revenue Collection account No 1141208989 at Kenya Commercial Bank Nyamira on 16 April 2013 where revenue collections were to be banked intact awaiting transfer to County Revenue Fund at the Central Bank of Kenya. The closed bank balances in the respective defunct Local Authorities were also transferred to this account.

3.1.2 Withdrawal from County Revenue Funds

Funds from County Revenue Funds were only withdrawn as mandated by County Appropriation Act and authorized by the Controller of Budget as requested by County Treasury. Approval for the same by the Controller of budget was evident for the following amounts in relation to the recurrent expenditure.

Reference	Date	Amount (Kshs.)
NYR/CNT/VOL 1(2) & COB/NYA/034/1	17 April 2013	62,589,560.00
	11 June 2013	61,592,200.00
NYAM/C.T/1 (2) & COB/NYA/001/1	30 June 2013	46,942,162.50

The above releases were for specific itemized expenditure.

3.1.3 Staff and Arrears of Salary Status and Councilors Allowances

Staff at the defunct Local Authorities of Town Council of Keroka, Town Council of Nyansiongo, Nyamira County Council and Town Council of Nyamira was assimilated by

County Government as one work force in February 2013. The review of payrolls for July 2012, December 2012 and February 2013 indicated that there were no changes in the new appointments in all defunct Local Authorities except in Town Council of Keroka where three (3) people were employed in February 2013. Documents availed indicated that authority to employ the three (3) staff was granted by Minister for Local Government vide letter Ref: MLG 1308-44/II (77) dated 18 February 2013.

Further, review of salary arrears records indicated that as at 30 June 2013 the defunct Local Authorities owed staff Kshs.148,562,860.00 as analyzed below:

LOCAL AUTHORITY	AMOUNT (KSHS.)
Town Council of Keroka	56,322,283.00
Town Council of Nyansiongo	9,708,420.00
Nyamira County Council	31,532,157.00
Town Council of Nyamira	51,000,000.00
Councillors' allowances(Town Council of Keroka)	2,000,000.00
TOTAL	148,562,860.00

Councillors' arrears of allowances as at the same date stood at Kshs.2,000,000 for the defunct Town Council of Keroka. However, a comprehensive list of salary arrears for Town Council of Nyamira was not availed for audit review.

A review of the payroll for July 2012, December 2012 and February 2013 indicated that there was change in employment terms in February 2013 due to registration of Collective Bargaining Agreement (CBA) Ref. CA No. 14 of 2013 on 7 February 2013 in the Industrial Court. The increase ranged between 33% for the highest paid and 60% for the lowest paid officer. However, a review of annual estimates indicated that there were no supplementary estimates to support the increments in salaries and allowances. This increment raised the gross salaries paid to staff from Kshs.5,592,752.00 to Kshs. 6,123,097.00. It should be noted that the gross salary for July 2012 included Kshs. 1,668,800.00 being Councillors salaries. However, December 2012 was the last month councillors were in the payroll.

Recommendation

Detailed analysis on the status of the outstanding salary arrears need to be done by the County Government before settlement of the debt.

3.1.4 Revenue

Review of revenue collection records for four (4) months that is, from March to June 2013 indicated that a total of Kshs.21,973,668.00 was collected and only Kshs.11,898,764.33 was in the bank account. This balance in the bank also included sale of Country

Government tender documents. This therefore means that Kshs.10,983,764.33 was used at source, despite the fact that on 19 April 2013 a circular/memo vide letter Ref: NC/TA/ADM/2/1 which stopped any further withdrawal of funds from the County bank accounts.

3.1.5 Procurement – Construction Projects

The County Government of Nyamira procured the services for construction of nine (9) projects, namely, refurbishment to the Governor’s Offices at Kshs.1,997,160.00; Agriculture and Rural Development at Kshs.2,000,000.00; CDF Building at Kshs. 2,701,719.50; Infrastructure (Transport) at Kshs.2,000,000; Former Town Council Offices at Kshs.8,496,302.60; Health Sector at Kshs.2,000,000; Facelift at Kshs. 6,850,546.96; DDO’s Office Block to County Treasury at Kshs.2,000,000.00; and County Assembly at Kshs.30,616,179.90.

A review of the tender committee minutes indicated that the County Government tender committee used restricted tender based on time constraints.

However, County Government has not opened a fixed asset register to record, the buildings and other assets acquired by the County Government of Nyamira.

3.2 Town Council of Keroka

3.2.1 Cash and Bank Balances

Town Council of Keroka now defunct operated eleven (11) bank accounts with two commercial banks in Keroka. The five bank accounts held with Cooperative Bank were closed on 20 May 2013 and the balance of Kshs.1,077,306.00 net of bank charges was transferred to County Revenue Collection account No 1141208989 at Kenya Commercial Bank Nyamira. However, all the other six (6) KCB accounts operated by the former Town Council have had not been closed by 30 June 2013. This happened in total disregard of letter reference COU/INTER/FIN/03/VOL.1/01 dated 14 May 2013 from Interim Principal Finance Officer which required the former managers of the defunct Local Authorities to close.

Further two bank accounts held by the Town Council of Keroka had overdraft balances of Kshs.997,719.00 and Kshs.2,795.00 in respect of General Rate Fund Account No. 1106590961 and Road Maintenance Fuel Levy Account No. 1102227358 respectively.

Below is the detailed schedule of bank accounts:

Bank	Account Name	Account No	Amount (Kshs.)
KCB	General Rate Fund	1106590961	997,719.00 Dr
COOP BANK	General Rate Fund	01136360707601	1,080,073.00
KCB	LATIF Fund	1102214191	Closed- nil balance
COOP Bank	LATF Fund	01136360707600	412.00
KCB	Kazi Kwa Vijana	1120891183	11,400.00 Cr

COOP BANK	Kazi Kwa Vijana	01136360707604	420.00
KCB	Bus Park	1105459969	Closed-nil balance
COOP Bank	Bus Park	01136360707602	1,495.00
KCB	Road Maintenance Fuel Levy	1102227358	2,795.00 Dr
KCB	Kenya Roads Board	1102215023	1,218.00 Cr
COOP Bank	Kenya Roads Board	01136360707603	420.00

3.2.2 Bank Overdraft

Town Council of Keroka and Town Council of Nyansiongo General Rate fund accounts under Kenya Commercial Bank had running bank overdraft of Kshs.997,719.00 and Kshs.261,654.00 respectively. A further bank overdraft of Kshs.2,795.00 feature under the account of Road Maintenance levy with Kenya Commercial Bank relating to Town Council of Keroka.

Recommendation

The existing and running bank overdraft need to be cleared and the accounts closed.

3.2.3 Liabilities and Suppliers Balances

The defunct Town Council of Keroka had long outstanding liabilities amounting to Kshs. 98,718,704.00 some of which date as far back as year 2001. However, examination of supporting documents indicated that liabilities amounting to Kshs.29,131,182.00 were not supported as tabulated below:

Description	Handover report Kshs.	Supported Kshs.	Variance Kshs.
LAPFUND	1,200,000	-	1,200,000.00
Provident Fund	23,551,482	-	23,551,482.00
KLWGU	2,500,000	-	2,500,000.00
NHC	1,512,540	-	1,512,540.00
Post & Telcom	95,160	-	95,160.00
Erick Ntabo & Advocates	172,000	-	172,000.00
Geonya Self Help Group	50,000	-	50,000.00
Velab Enterprise	750,000	-	750,000.00
Eno Designers	250,000	-	250,000.00
Delta Company	250,000	-	250,000.00
Total			29,131,182

3.2.4 Motor Vehicles and Office Equipment

Non- Current Assets formerly owned by Town Council of Keroka included: 1 tractor, 1 tractor trailer, 1 motor vehicle, 5 computers, 2 photocopiers, 1 printer and a laptop. However a motor vehicle registration number KAG 576A was not in working condition.

Further, the log book for the tractor KWE 157 was however not availed for audit to verify ownership.

3.2.5 Debtors

Town Council of Keroka (defunct) debtors amounted to Kshs.3,600,000.00. However, documents to support of the same were not availed for audit. The debtors are as listed here under:

Debtor	Amount in Kshs.
Plot Rents	1,500,000.00
Single Business Permit	1,600,000.00
Stall Rent arrears	500,000.00
Total	3,600,000.00

3.2.6 Revenue

Examination of revenue collection records indicated that Kshs.11,127,885.00 was collected compared to Kshs.9,200,280.00 which was banked for the same period leading to expenditure at source of Kshs.1,927,605.00.

<u>Months</u>	<u>Collections</u> Kshs.	<u>Bankings</u> Kshs.	<u>Amount used at source</u> Kshs.
JAN, 2013	1,819,190.00	1,193,981.00	-625,209.00
FEB, 2013	1,594,430.00	928,175.00	-666,255.00
MCH, 2013	2,449,490.00	1,991,623.00	-457,867.00
APR., 2013	1,837,425.00	1,438,425.00	-398,620.00
MAY, 2013	1,727,140.00	1,650,420.00	-76,720.00
JUN., 2013	<u>1,741,900.00</u>	<u>1,741,900.00</u>	
	<u>11,169,575.00</u>	<u>8,944,524.00</u>	<u>2,224,671.00</u>

3.3 Town Council of Nyansiongong

3.3.1 Cash and Bank Balances

The defunct Town Council of Nyansiongo operated five (5) bank accounts with two commercial banks in Keroka. One bank account No. 01120360960100 held in Cooperative Bank with a balance of Kshs.568.40 and another bank account No. 1102215155 held in KCB with a balance of Kshs.261,654.50 had not been closed on 30 June 2013. This was contrary to letter reference COU/INTER/FIN/03/VOL.1/01 dated 14 May 2013.

Further, one bank account held by the Town Council of Nyansiongo had an overdraft balance of Kshs.261,654.50 in respect of Road Maintenance Fuel Levy Account No. 1102215155.

Here below is the detailed schedule of bank accounts:

Bank	Account Name	Account No	Amount Kshs.	Status
KCB	General Rate Fund	1106591194	599,964 Cr	Running
KCB	LATF Fund	102214663		Closed
COOP Bank	LATF Fund	01120360960100	568.40	Closed
KCB	Kazi Kwa Vijana	1116996162	Nil balance	Closed
KCB	Road Maintenance Fund	1102215155	261,654.50.10 Dr	Running

Recommendation

The former Town Council of Nyansiongo should take the initiative towards closure of the remaining bank accounts under Kenya Commercial Bank and Cooperative Bank.

3.3.2 Liabilities and Suppliers Balances

Town Council of Nyansiongo now defunct had liabilities amounting to Kshs.22,302,007.00, which have been outstanding for a long period. Even though, details supporting these liabilities were availed for audit verification, they have been outstanding for a long period of time.

The liabilities are listed below:

Particulars	Kshs.
Staff Salary arrears	9,708,420.00
PAYE	2,707,680.00
NHIF	5,760.00
NSSF	13,420.00
LAP FUND	7,025,126.00
LAP TRUST	50,000.00

KENAO -Audit fee	900,000.00
KLGWU	261,123.00
ALGAK	259,600.00
NOA	456,304.00
ADVOCATES	190,000.00
GUSII WATER	2,273.00
HELB	125,000.00
STAFF LOANS REPAYMENT [C/O]	<u>627,261.00</u>
TOTAL	<u>22,302,007.00</u>

Comprehensive of a forensic review is needed to be performed on the status of the liabilities.

3.3.3 Motor Vehicles and Office Equipment

Non- Current Assets formerly owned by the defunct Town Council of Nyansiongo included: 1 motor vehicle, 1 tractor, 1 tractor trailer, 2 computers, 1 laptop and 3 printers.

3.3.4 Debtors

Town Council of Nyansiongo (defunct) debtors amounted to Kshs.23,328,568.00, but documents in support of the same was not availed for audit. The debtors are:

Debtor	Amount Kshs
Office Rent [KNUT]	17,500 .00
Land Rates	9,066,111.00
Land Rent	387,578.00
Plot Rents (un -surveyed Plots)	1,424,640.00
Single Business Permit	925,700.00
CILOR	11,286,239.00
Stall Rent	<u>220,800.00</u>
Total	<u>23,328,568.00</u>

3.3.5 Revenue

Comparison of Revenue for January to June 2013 against same Period in 2012

It was noted that revenue collected for the months of January to June 2013 compared to January to June 2012 of Kshs.3,715,570.00 and Kshs.4,512,102 respectively reflected a drop by Kshs.796,532.00 representing 18% drop in revenue.

The management explanations were that the drop in revenue collections was due to the effects of national elections which brought disruptions on market times.

3.4 Nyamira County Council

3.4.1 Cash and Bank Balances

The Council operated five bank accounts with the following bank balances:

Account Number	Bank	Balances as at 28 th February 2013	Balances as at 23 rd May 2013
1103322532	KCB	3,413,746.28	Nil
1103322052	KCB	3,371,017.75	Nil
031256970869	KCB	107,881.50	107,281.50
0520297313048	Equity	3,121,102.57	Nil
0520297313064	Equity	61,858.20	Nil
0520299170839	Equity	Nil	Nil

Examination of the bank accounts and the cash book for the council revealed the following:

- i) The bank accounts as listed above were closed and balances transferred to the County Government account on 27th May 2013. Our scrutiny indicated a balance of Kshs.107,281.50 in KCB Account No. 031256970869 though closed, was not transferred to County Revenue Collection account.
- ii) The County Council did not carry out bank reconciliations for all the bank accounts it operated.
- iii) Revenue was not banked into an exchequer account operated by the County government as directed and expenditure continued long after transition.

3.4.2 Liabilities and Suppliers Balances

Nyamira County Council now defunct, had long outstanding liabilities of Kshs.18,662,017.00 while the report made to the County Government of Nyamira indicated a balance of Kshs.13,143,873 resulting to unexplained variance of Kshs. 5,518,144.00 as follows:

Description	Handover Kshs.	Supported Kshs.	Variance Kshs.
KRA (PAYE)	3,733,645.00	4,083,330.00	-349,685.00
NSSF	347,040.00	420,800.00	-73,760.00
LAPRO FUND	8,060,216.00	10,144,736.70	-2,084,520.70
Laptrust (Councilors	784,392.00	986,902.00	-202,510.00.00
NHIF	-	38,400.00	-38,400.00
Dafamo Supplies	-	58,000.00	-58,000.00.00

Audit fees	-	2,240,000.00	-2,240,000.00
ALGAK	-	496,253.00	-496,253.00
Total	13,143,873	18,662,017	-5,518,144

3.4.3 Debtors

A review of debtors' records maintained by Nyamira County Council as at 30 June, 2013 indicated that the outstanding debtors amounted to Kshs.39,555,260.00. The figure comprised an amount of Kshs.21,948,116.00 in respect of plot defaulters and Kshs. 17,607,140.00 for land rates.

Recommendation

The county government of Nyamira should adopt the list of debtors and put in place adequate systems to recover the same.

3.4.4 Revenue

Examination of revenue records for Nyamira County Council for the period January to June, 2012 and January to June 2013 revealed that collections for the periods amounted to Kshs.11,283,011.00 and Kshs.16,434,554.00 respectively, leading to a difference of Kshs.5,515,543.00 representing 49% rise in revenue collection.

The rise in revenue collection was attributed to invigorated surveillance and implementation of better systems of revenue collection. It therefore follows that the council could have been losing revenue through pilferage occasioned by non-receipting and/or printing of parallel receipts.

Recommendation

The County Government should institute more stringent controls to ensure that better revenue collection is realized.

3.4.4.1 Expenditure of revenue at source

Regulations that governed the defunct local authorities and the county governments prohibit the expenditure of revenue collections at source.

On the contrary, Nyamira county council spent an amount of Kshs.940,385.00 at source between the period August 2012 and March 2013. The expenditure mainly on allowances and fuel was therefore irregular. No proper explanation was provided as to why the regulations were ignored.

Recommendation

Regulations governing the collection and control of revenue should be adhered to.

3.5 Town Council of Nyamira

3.5.1 Cash and Bank Balances

The Council operated three bank accounts and had bank balances as follows:

Account Number	Bank	Balances as at 28 th February 2013	Balances as at 22 nd May 2013
1103330047	KCB	568,011.40	4,811.40
0520292904802	Equity		839,714.80
0520292444020	Equity		9,262.90

Examination of the bank accounts and the cash book for the council revealed the following:

- i) The bank accounts as listed above were closed and balances transferred to the County Government account on 27 May 2013.
- ii) The County Council did not carry out bank reconciliations for all the bank accounts it operated.
- iii) Revenue was not banked into an exchequer account operated by the county government as directed and expenditure continued long after transition.

3.5.2 Liabilities and Suppliers Balances

A financial report covering incomes and expenditure for the period October 2012 to April 2013 indicated that the Town Council of Nyamira had creditors' balances amounting to Kshs.150,590,261.00 which date as far back as year 2001 and were not supported as tabulated below:

Description	Handover report	Supported	Variance
	Kshs.	Kshs.	Kshs.
LAPFUND	67,494,849.60	-	67,494,849.60
NHIF	2,539,360.00	-	2,539,360.00
KRA	7,704,650.00	-	7,704,650.00
NSSF	12,960,536.00	-	12,960,536.00
LAPTRUST	800,000.00	-	800,000.00
KLGWU	420,000.00	-	420,000.00
SALARY ARREARS	51,000,000.00	-	51,000,000.00
COUNCILOR'S ALLOWANCES	3,028,865.00	-	3,028,865.00
AUDIT FEE	2,546,000.00	-	2,546,000.00
SUPPLIER'S	320,000.00	-	320,000.00
CONTRACTORS	1,456,000.00	-	1,456,000.00

LEGAL FEES (VARIOUS)	<u>320,000.00</u>	=	<u>320,000.00</u>
Total	150,590,261		150,590,261.00

However, supporting schedules for creditors were not made available for audit. It was therefore not possible to confirm the validity of the creditors

Recommendation

The creditors balances should be supported with certified relevant documents like invoices.

The log books for a tractor M/F KAB 085 Y and Nissan Sahara Pick Up KAB 025 Q are missing.

Recommendation

The management should use every effort to trace the missing log books or liase with the registrar of motor vehicles for a duplicate copy of the log books.

3.5.3 Debtors

The Town Council of Nyamira had receivable/ debtors' balance of Kshs.243,300.00 in respect of plot rent as at 30 June 2012 as reported in the audited financial statements. However, the report made to the County Government of Nyamira did not include this amount casting doubt as to its existence. If it was received, the then management should shed light on how and into which cash book it was receipted. The details of these rent defaulters were not equally provided during the audit. The effect is that the report presented to the County Government of Nyamira did not present the fair status of accounts receivables of the defunct Local Authority.

Recommendation

An effort should be made by the management to provide a detailed and reconciled debtors schedule.

3.6 Information Systems assessment

3.6.1.1 Network Connectivity

There was no Local Area Network at the county Headquarters at the time of audit. The county had also not established a Wide Area Network at the County to connect various Sub-County offices. The county had been given fifteen (15) modems by Treasury but IFMIS connectivity was not stable at the time of audit.

Risks

- Inadequate network connectivity may hinder the monitoring of the activities at the Sub-Counties.

- Lack of an established network may hamper the automation of the County's processes.

Recommendations

- All Sub-County Offices should have adequate infrastructure and LAN to facilitate automation of the County operations.
- The County should ensure that all its Sub-County offices are inter-connected to the head office to ensure efficient monitoring of each Sub-County processes.

3.6.2 Integrated Financial Management Information System (IFMIS)

IFMIS operations were being carried out at Nyamira county assembly where plan to budget module was in operation. As at 8 October 2013, all payments were being processed manually. The following observations were however noted;

a. Implementation Process

The ICT department at the county government was not involved in the IFMIS implementation and hence they could not offer adequate assistance to the challenges encountered by IFMIS users.

Out of the twenty computers provided by the IFMIS treasury, seventeen of them had not been configured for IFMIS processing.

b. Anti-virus software

IFMIS department did not provide anti-virus software to the Nyamira County government; however, the county government was in the process of procuring anti-virus.

c. Training of County Staff

Ten (10) staff members had been trained on IFMIS and only one (1) officer had been trained on IPPD while no staff from the ICT department has been trained on the same so as to provide support when need be.

d. Connectivity

IFMIS provided fifteen (15) Orange MODEMS to facilitate connections to the main server which is at the National Treasury head office; however, the signals have not been stable and fluctuate from time to time.

e) Support Team/ Help Desk

From an interview with users of different applications, it was noted that users were not satisfied from the support they were getting from IFMIS help desk.

Recommendations

- i. The County should ensure that IFMIS is fully utilized for its financial operations and all modules are in use.
- ii. The IFMIS Directorate should fast track the implementation of C-IFMIS which will be used to integrate the Revenue Module of LAIFOMS and IFMIS. This will ensure that all revenue collected by the County is reflected in IFMIS thereby promoting accountability of these funds. The IFMIS system should be integrated with G-PAY system
- iii. The County should ensure that all its financial operations are automated.
- iv. The ICT Department should ensure that all machines are installed with anti-virus software to prevent the risk of virus attacks.

3.6.3 Local authority integrated financial operations management system (LAIFOMS).

LAIFOMS had been installed in Nyamira county council but revenue collection processing was manual in all other sub counties. It was not possible to extract data for audit analysis from LAIFOMS due to power outage and LAIFOMS server could not start up.

The County had no alternative source of power to enable continuity of services in case of disruption. Due to frequent power outages, there is a risk of LAIFOMS server crashing and the county may lose vital information.

Recommendations

- i. The County management should take control of the management of LAIFOMS previously installed in the Local Authorities so as to ensure that revenue collection is accounted for.
- ii. The County should ensure that each Sub-County has a system in place to monitor the collection of its revenue and ensure that all expenditure incurred is centralized.

3.6.4 Integrated Payroll and Personnel Database (IPPD)

The county had successfully implemented IPPD system which was being used to process payroll and human resource data since May 2013. The IPPD training had been offered to only one officer who was the payroll manager. There was lack of segregation of duties in the IPPD system as the payroll manager had exclusive rights and privileges to the system.

It was also reported that DPM support team was not responding adequately and timely to issues raised by the payroll manager.

The ICT department in the County was not involved in the IPPD implementation hence they could not assist adequately in the system issues.

The data analysis revealed that the IPPD lacked system controls to ensure validity checks, completeness checks and duplicity checks. The following anomalies were as a result of weak system controls;

- 13 officers had no date of posting
- 12 officers had incorrect tax pin
- 2 officers had incorrect ID
- 36 officers had no incremental date
- 2 officers had duplicate accounts

Recommendations

- i. The County should carry out a data clean-up of its human resource data to ensure the integrity of the payroll.

3.6.5 IT Control Environment

3.6.5.1 Staffing and Segregation of duties

The county had inadequate ICT staff to provide support to the applications in place.

Recommendation

The IT County Department should be enhanced in terms of personnel to adequately manage the IT operations in an efficient and effective manner. The roles and responsibilities should be defined and documented to ensure segregation of duty.

3.6.5.2 Management of IT Operations

In order to govern and manage the IT operations, the County was yet to develop and implement some of the key ICT documents including; ICT Strategic Plan, ICT policies and procedures, the ICT assets register, Business Continuity Policies (BCP) and Disaster Recovery Plans (DRP). There was also no ICT Steering Committee in place.

Recommendations

- i. The County Executive and Management should develop, approve, communicate and implement the respective ICT policies, IT Strategic Plan, Business Continuity Plan and Disaster Recovery Plan that ensure proper management of IT operations.
- ii. The County should ensure that a properly constituted IT Steering Committee is in place.

3.6.5.3 Physical Controls

The IPPD server was located in the human Resource office where accessibility was not restricted to authorized staffs only. The county did not also have a LAIFOMS' server room as the server had been placed in an office where revenue collection operations were carried out from. The County should set aside a room specifically for servers, properly fitted with the following conditions as control measures:

- Air conditioner to maintain room temperature.
- Fire extinguisher.
- Smoke detector.
- Alarm to alert in case of illegal access or fire.
- The server room should not be used as an office to run day to day operations.

Recommendation

Physical access controls to the server room need to be reinforced.



Edward R.O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

3 March 2014