

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

REPORT

OF

THE AUDITOR–GENERAL

ON THE

FINANCIAL OPERATIONS

OF

THE COUNTY GOVERNMENT OF
SIAYA AND ITS DEFUNCT
LOCAL AUTHORITIES

FOR THE PERIOD
I JANUARY TO 30 JUNE 2013

Table of Contents

1.	EXECUTIVE SUMMARY	1
1.1	Introduction	1
1.2	Audit Objectives	1
1.3	Key Audit Findings.....	2
1.3.1	County Executive	2
1.3.2	Municipal Council of Siaya.....	2
1.3.3	County Council of Siaya.....	4
1.3.4	County Council of Bondo	5
1.3.5	Town Council of Bondo	6
1.3.6	Town Council of Ugunja.....	7
1.3.7	Town Council of Yala.....	9
1.3.8	Town Council of Ukwala.....	10
1.4	Conclusion	11
	THE DEFUNCT LOCAL AUTHORITIES	12
2.1	Introduction	12
2.2	Terms of Reference.....	12
2.3	Methodology	13
3	Key Audit finding	13
3.1	County Executive.....	13
3.1.1	Failure to close Bank Accounts.....	13
3.1.2	Information Financial Management Integrated System (IFMIS).....	14
3.2	Municipal Council of Siaya	15
3.2.1	Revenue Collection.....	15
3.2.2	Debtors	15
3.2.3	Creditors	15
3.2.4	Irregular Payments.....	16
3.2.5	Local Authority Transfer Fund Expenditure	16
3.3	County Council of Siaya.....	16
3.3.1	Creditors	16
3.3.2	Debtors	17
3.3.3	Revenue Used at Source.....	17
3.4	County Council of Bondo.....	18
3.4.1	Creditors	18

3.4.2	Revenue Shortfall.....	18
3.4.3	Unsupported Procurement.....	18
3.4.4	Missing Payment Vouchers	18
3.5	Town Council of Bondo	19
3.5.1	Cash and Bank Balances	19
3.5.2	Bank Overdraft	19
3.5.3	Debtors	19
3.5.4	Creditors	20
3.5.5	Local Authority Transfer Fund Expenditure	20
3.6	Town Council of Ugunja.....	20
3.6.1	Creditors	20
3.6.2	Debtors	21
3.6.3	Cash Procurement	21
3.6.4	Local Authority Transfer Fund Expenditure	21
3.7	Town Council of Yala.....	22
3.7.1	Creditors	22
3.7.2	Debtors	22
3.7.3	Unbanked Revenue	23
3.7.4	Payroll	23
3.8	Town Council of Ukwala	23
3.8.1	Creditors	23
3.8.2	Debtors	24
3.8.3	Direct Revenue Expenditure	24
3.8.4	Local Authority Transfer Fund Expenditure	24
	Conclusion	25

REPORT OF THE AUDITOR-GENERAL ON THE OPERATIONS OF SIAYA 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 Further, the County Government Act, 2012 Section 134 (1) repealed the Local Government Act, Cap 265, and thus effectively dissolving all the 175 Local Authorities and creating 47 County Governments.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

The audit covered the County Executive and County Assembly and the former County Council of Siaya, Town Council of Bondo, Town Council of Ugunja, Town Council of Yala , Municipal Council of Siaya, Town Council of Ukwala and County Council of Bond 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

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.

1.3 Key Audit Findings

1.3.1 County Executive

1.3.1.1 Failure to close Bank Accounts

All defunct Local Authorities were to close all operating bank accounts and transfer all funds to the County Government Revenue Account and obtain a closure of accounts certificate from the banks stating the amount so transferred. Contrary to the above directive, the defunct Councils continued operating the accounts, some of them to date thus defeating the purpose of the circular from the Transition Authority.

- Immediate closure of the bank accounts and transferring any monies in those accounts to the Revenue Account of the County Government of Siaya.
- Reconciliations should be done to ascertain the exact amount to be transferred to the County Revenue Account.
- Make available banks confirmation certificates as at the time of closure of each bank account.

1.3.1.2 Failure to take over the Defunct Local Authorities

The County Government of Siaya had not officially taken over the assets and liabilities of the former Municipal Council of Siaya, County Council of Siaya, County Council of Bondo, Town Council of Bondo , Town Council of Ugunja, Town Council of Yala and Town Council of Ukwala as at the time of audit conclusion on 26 September 2013, contrary to instructions issued by the Ministry of Local Government vide Circular No. MLG/1333/TY/52 of 18 February, 2013. Arrangements should be made by Transition Authority to have assets and liabilities of the former Councils handed over to the County Government.

Transition Authority should ensure that accurate statements of assets and liabilities as at 28 February 2013 are prepared by former Councils' chief officers to enable a proper handing to the County Government. The balances will form a basis for opening balances to be recorded in the County Government books of accounts.

1.3.2 Municipal Council of Siaya

1.3.2.1 Current assets and liabilities

i) Revenue Collection

During the year under review, the defunct Municipal Council of Siaya collected revenue totaling Kshs.5,923,134.00, out of the revenue collection only Kshs.2,807,422.00 was banked intact, resulting to a difference of Kshs.3,115,712 which was used directly by the Council without approval and also no supporting documents were availed for the expenditure. Under the circumstances the propriety of the expenditure could not be confirmed.

Government financial regulations and procedures should be followed to avoid possible loss of revenue through pilferages. Proper systems should also be put in place to ensure that all revenue collections are banked intact.

ii) Debtors

Records availed indicate debtors balances amounting to Kshs.9,657,493.00 had been handed over to the County Government by the defunct Municipal Council of Siaya as at 30 June 2013. Outstanding debtor's balances were not supported by listings, debtor's registers, copies of invoices and demand notices. The outstanding debtor's balances have not been incorporated in the books of the County Government. Further, the debtors figure does not include the Parastatals Kshs.4,731,799, Single Business Permits Kshs.1,655,244 staff and councillors advances and outstanding imprest 3,265,800. Under the circumstances the debtors figure could not be confirmed.

Debtors' ledger should be updated regularly to reflect true position of the balances at any given time. Debt collection policy should also be put in place to ensure that debts are collected as and when they fall due.

iii) Creditors

The creditors' balances amounting to Kshs.97,000,923 as at 30 March 2013 handed over to the County Government by the defunct Municipal Council of Siaya, were not supported by original contract agreements, invoices, delivery notes, statements, schedules and payrolls. Consequently the accuracy of the creditors figure could not be confirmed.

The Creditors ledger should be updated in order to reflect accurate creditors' position to avoid payments being made to fictitious suppliers and ghost employees. The Council should support the creditors with all necessary documents. A forensic audit should be carried out to validate the creditors to be inherited by the County Government of Siaya.

1.3.2.2 Irregular Payments

During the year under review, the defunct Municipal Council of Siaya made some payment and the authentic payee could not be confirmed. Payment totaling Kshs.455,000 as per payment voucher reflected Municipal Council of Siaya as payee, while the same cheque number reflects Domnic Simiyu as payee being paid total of Kshs.957,000.00. The cheque numbers are 000373 and 000359 as part of October and November salary arrears. Under the circumstances the propriety of the expenditure could not be confirmed.

These variances on the amount paid and the payees should be clearly established and correction should be reflected in the books and the amount accounted for properly.

1.3.2.3 Local Authority Transfer Fund Expenditure

During the year under review, the defunct Municipal Council of Siaya received LATF totaling Kshs.15,555,878. However, the Council spent Kshs.7,120,000.00 on Loans Account and Kshs.7,987,044.00 on salaries as at the time of audit in September 2013, contrary to the LATF Act that only 35% should be spent on salaries, while the rest to be spent on projects. Under the circumstance the council was in breach of the Law.

The Council should adhere to the law, and avail approval for the excess of 35% salaries.

1.3.3 County Council of Siaya

1.3.3.1 Current assets and liabilities

i) Creditors

The creditors balances amounting to Kshs.97,000,923 handed over to the County Government by the defunct County Council of Siaya were not supported by creditor's registers, original contract agreements, invoices, delivery notes, statements, schedules and payrolls.

The Creditors ledger should be updated in order to reflect accurate creditors' position to avoid payments being made to fictitious suppliers and ghost employees. The council should support the creditors with all necessary documents. A forensic audit should be carried out to validate the creditors to be inherited by the County Government of Siaya.

ii) Debtors

Records availed indicate debtors balances amounting to Kshs.15,316,884 had been handed over to the County Government by the defunct County Council of Siaya. Outstanding debtor's balances were not supported by listings, debtor's registers, copies of invoices and demand notices. The outstanding debtor's balances have not been incorporated in the books of the County Government. Further, the debtors figure does not include the staff and councilors advances and outstanding imprest. It was also noted that Plot rent of only three division are being charged instead of all seven division which are under the council and no explanation was provided, while the Council is losing funds for not charging Plot rent on the remaining four division.

Debtors' ledger should be updated regularly to reflect true position of the balances at any given time. Debt collection policy should also be put in place to ensure that debts are collected as and when they fall due.

iii) Revenue Used at Source

The revenue collected by the Council from December 2012 to February 2013 amounted to Kshs.6,861,230.00, out of which the Council spent Kshs.4,961,096 directly. However, the cash analysis book and payment vouchers were not availed for

audit verification. Under the circumstances the propriety of the expenditure could not be confirmed.

The County Government should put in place a strong internal control system to ensure that there is proper accountability at every stage in revenue collection cycle. All revenue collected should be banked intact and expenditure incurred recorded in cash book and properly accounted for.

1.3.4 County Council of Bondo

1.3.4.1 Current assets and liabilities

i) Creditors

The creditors balances amounting to Kshs.7,174,328.00 as at 30 March 2013 were handed over to the County Government by the defunct County Council of Bondo but were not supported by creditor's registers, original contract agreements, invoices, delivery notes, statements, schedules and payrolls. Consequently the accuracy of the creditors figure could not be confirmed.

The creditors ledger should be updated in order to reflect accurate creditors' position to avoid payments being made to fictitious suppliers and ghost employees. The Council should support the creditors with all necessary documents. A forensic audit should be carried out to validate the creditors to be inherited by the County Government of Siaya.

ii) Revenue Shortfall

During the period under review the defunct County Council of Bondo had variation on revenue collection, for instance the month of May and June 2012 collection was Kshs.10,420,988 while the same period in 2013 the collection was Kshs.4,282,985 resulting to difference of Kshs.6,133,003 which were un-reconciled and unexplained. Under the circumstance the revenue figure could not be confirmed.

The significant drop in collection of revenue should be investigated and collection be enforced.

1.3.4.2 Procurement of goods and services

i) Unsupported Procurement

During the period under review, the defunct County Council of Bondo incurred expenditure totaling Kshs.22,265,617 on Council projects implementation. However, there were no procurement supporting documents availed for the expenditure. Under the circumstances the propriety of the expenditure could not be confirmed.

Expenditure incurred should be properly supported and fully accounted for in accordance with Government financial regulations and procedures.

ii) Missing Payment Vouchers

During the period under review, the Council incurred expenditure totaling Kshs.3,119,245.00 as per the cash book, no payment vouchers and request for the same were availed for audit verification. Under the circumstance the propriety of the expenditure could not be confirmed.

Expenditure incurred should be properly supported and fully accounted for in accordance with Government financial regulations and procedures.

1.3.5 Town Council of Bondo

1.3.5.1 Current assets and liabilities

i) Cash and Bank Balances

The defunct Town Council of Bondo has not closed three bank accounts being operated under Kenya Commercial Bank, Account No 1123397023, 1107094321 and 1107084032, contrary to Transitional Authority that the accounts were to be closed by 28 February 2013. The accounts have been attracting charges which were not budgeted for as at 30 June 2013 the charges were Kshs.17,138.85. Under the circumstances the bank balances could not be confirmed.

The County Government should ensure that bank accounts of the defunct council are closed and balances transferred to County Revenue Account for proper accountability of funds. Bank reconciliation statements for all bank accounts of the defunct council should be prepared and accuracy of the same confirmed by a senior official

ii) Bank Overdraft

During the period under review the Council operated General Rate Fund and Road Maintenance Levy, KCB Accounts under overdraft of Kshs.997,719 and 2,795 respectively, approval and security for the overdraft were not availed for audit verification. Under the circumstances the overdraft operation figure could not be confirmed.

The County Government should ensure that bank accounts of the defunct council are closed. Approval and security for the overdraft should be in place for proper accountability of funds.

iii) Debtors

Records availed indicate debtors balances amounting to Kshs.283,000 had not been handed over to the County Government by the defunct Town Council of Bondo. Outstanding debtor's balances were not supported by listings, debtor's registers, copies of invoices and demand notices. The outstanding debtor's balances have not been incorporated in the books of the County Government. Further, the debtors figure does not include the staff and councilors advances and outstanding imprest.

Debtors' ledger should be updated regularly to reflect true position of the balances at any given time. Debt collection policy should also be put in place to ensure that debts are collected as and when they fall due.

iv) Creditors

The creditors balances amounting to Kshs.5,272,263 handed over to the County Government by the defunct Town Council of Bondo were not supported by creditor's registers, original contract agreements, invoices, delivery notes, statements, schedules and payrolls. Consequently the accuracy of the creditors figure could not be confirmed.

The Creditors ledger should be updated in order to reflect accurate creditors' position to avoid payments being made to fictitious suppliers and ghost employees. The Council should support the creditors with all necessary documents. A forensic audit should be carried out to validate the creditors to be inherited by the County Government of Siaya.

1.3.5.2 Local Authority Transfer Fund Expenditure

During the year under review, the defunct Town Council of Bondo received LATF totaling Kshs.15,475,651. However, the Council spent only Kshs.2,953,409 on projects and Kshs.6,042,650 on salaries as at the time of audit in September 2013. Bank statement as at 30 June 2013 availed for audit revealed that only Kshs.1,954,998.25 was the bank balance. Under the circumstances the difference of Kshs.4,524,594 could not be confirmed how the Council accounted for.

The Council should adhere to the law, and avail approval for the excess of 35% on salaries. The County Government should investigate and confirm how the funds were utilized. Also, proper procedures should be followed when expenses are being incurred.

1.3.6 Town Council of Ugunja

1.3.6.1 Current assets and liabilities

i) Creditors

The creditors balances amounting to Kshs.5,742,240 as at 30 March 2013 handed over to the County Government by the defunct Town Council of Ugunja were not supported by creditor's registers, original contract agreements, invoices, delivery notes, statements, schedules and payrolls. Consequently the accuracy of the creditors figure could not be confirmed.

The Creditors ledger should be updated in order to reflect accurate creditors' position to avoid payments being made to fictitious suppliers and ghost employees. The Council should Support the creditors with all necessary documents. A forensic audit should be carried out to validate the creditors to be inherited by the County Government of Siaya.

ii) Debtors

Records availed indicate debtors balances amounting to Kshs.31,300.00 had not been handed over to the County Government by the defunct Town Council of Ugunja as at 30 June 2013.

Outstanding debtor's balances were not supported by listings, debtor's registers, copies of invoices and demand notices. The outstanding debtor's balances have not been incorporated in the books of the County Government. Further, the debtors figure does not include the staff and councilors advances and outstanding imprest. Under the circumstances the debtors figure could not be confirmed.

Debtors' ledger should be updated regularly to reflect true position of the balances at any given time. Debt collection policy should also be put in place to ensure that debts are collected as and when they fall due.

iii) Cash Procurement

During the period under review, the defunct Town Council of Ugunja made payments on cash basis totaling Kshs.1,200,760.00, by making cash withdrawal from the bank in order to pay suppliers of goods and services instead of making cheque payment which is the safe way to handle payments. Under the circumstances the propriety of the expenditure could not be confirmed.

The Council should support the payment or recovery should be made from the officers who received the money. The Council should have proper limit of cash expenses as per the government procurement regulations.

1.3.6.2 Local Authority Transfer Fund Expenditure

During the period under review, the defunct Town Council of Ugunja received LATF totaling Kshs.17,087,187. However, the Council spent only Kshs.282,920 on projects , Kshs.11,631,063.20 on salaries and Kshs.5,173,203.82 on consultancy, Stationery and repayment of bank overdraft as at the time of audit in September 2013, contrary to the LATF Act that only 35% should be spent on salaries , while the rest to be spent on projects. Under the circumstance the council breach the Law.

The Council should adhere to the law, and avail approval for the excess of 35% on salaries. The County Government should investigate and confirm how the funds were utilized. Also, proper procedures should be followed when expenses are being incurred.

1.3.7 Town Council of Yala

1.3.7.1 Current assets and liabilities

i) Creditors

The creditors balances amounting to Kshs.47,216,900.30 as at 30 March 2013 handed over to the County Government by the defunct Town Council of Yala, were not supported by original contract agreements, invoices, delivery notes, statements, schedules and payrolls. Consequently the accuracy of the creditors figure could not be confirmed.

The Creditors ledger should be updated in order to reflect accurate creditors' position to avoid payments being made to fictitious suppliers and ghost employees. The Council should support the creditors with all necessary documents. A forensic audit should be carried out to validate the creditors to be inherited by the County Government of Siaya.

ii) Debtors

Records availed indicate debtors balances amounting to Kshs.1,164,727 had been handed over to the County Government by the defunct Town Council of Yala as at 30 June 2013.

Outstanding debtor's balances were not supported by listings, debtor's registers, copies of invoices and demand notices. The outstanding debtor's balances have not been incorporated in the books of the County Government. Further, the debtors figure does not include the staff advances and outstanding imprest. Under the circumstances the debtors figure could not be confirmed.

Debtors' ledger should be updated regularly to reflect true position of the balances at any given time. Debt collection policy should also be put in place to ensure that debts are collected as and when they fall due.

iii) Unbanked Revenue

During the period under review, revenue totalling Kshs.3,160,607.10, was collected and, out of which only Kshs.1,116,369.10 was banked intact resulting to a difference of Kshs.2,044,238 which has not been accounted for. Under the circumstances the revenue collection figure could not be confirmed.

The County Government should put in place a strong internal control system to ensure that there is proper accountability at every stage in revenue collection cycle, such as daily counter checking of receipts cash book by a senior officer and daily balancing of the cash book. All revenue collected should be banked intact and expenditure incurred recorded in cash book and properly accounted for.

1.3.7.2 Payroll

During the period under review, the defunct Town Council of Yala Payroll staff bi-data submitted to the County Government for the period January to March 2013 could not be verified as the salary payment vouchers and establishment budget were not availed for audit. Under the circumstance the payroll figure could not be confirmed.

The payroll records should be reconciled and expenditure properly supported with relevant schedules for confirmation of propriety of the payments.

1.3.8 Town Council of Ukwala

1.3.8.1 Current assets and liabilities

i) Creditors

The creditors balances amounting to Kshs.27,618,811.00 as at 30 March 2013 handed over to the County Government by the defunct Town Council of Ukwala were not supported by creditor's registers, original contract agreements, invoices, delivery notes, statements, schedules and payrolls. Consequently the accuracy of the creditors figure could not be confirmed.

The Creditors ledger should be updated in order to reflect accurate creditors' position to avoid payments being made to fictitious suppliers and ghost employees. The Council should support the creditors with all necessary documents. A forensic audit should be carried out to validate the creditors to be inherited by the County Government of Siaya.

ii) Debtors

Records availed indicate debtors balances amounting to Kshs.2,827,039.00 had been handed over to the County Government by the defunct Town Council of Ukwala as at 30 June 2013.

Outstanding debtor's balances were not supported by listings, debtor's registers, copies of invoices and demand notices. The outstanding debtor's balances have not been incorporated in the books of the County Government. Further, the debtors figure does not include the Single Business Permits, staff and councillors advances and outstanding imprest. Under the circumstances the debtors figure could not be confirmed.

Debtors' ledger should be updated regularly to reflect true position of the balances at any given time. Debt collection policy should also be put in place to ensure that debts are collected as and when they fall due.

iii) Direct Revenue Expenditure

During the period under review, the Council made revenue collection totaling Kshs.5,374,802.00, out of which Kshs.1,071,193.00 was used at the source resulting to a difference of Kshs.1,754,679.00 which could not be reconciled or explained how

it was accounted for. Under the circumstance the revenue figure could not be confirmed.

The County Government should put in place a strong internal control system to ensure that there is proper accountability at every stage in revenue collection cycle, such as daily counter checking of receipts cash book by a senior officer and daily balancing of the cash book. All revenue collected should be banked intact and expenditure incurred recorded in cash book and properly accounted for.

1.3.8.2 Procurement of goods and services

Local Authority Transfer Fund Expenditure

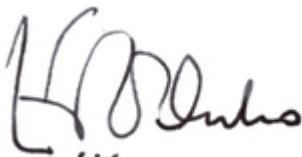
During the period under review, the defunct Town Council of Ukwala received LATF totaling Kshs.20,499,929. However, the amount was spent on personnel emoluments as at the time of audit in September 2013, contrary to the LATF Act that only 35% should be spent on salaries, while the rest to be spent on projects. Under the circumstance the council breaches the Law.

The Council should adhere to the law, and avail approval for the excess of 35% on salaries. The County Government should investigate and confirm how the funds were utilized. Also, proper procedures should be followed when expenses are being incurred.

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 based on the accounting and reporting systems to be developed by the Public Sector Accounting Standards Board in accordance with Section 194 of the PFA Act 2012. Expenditure should be incurred in accordance with the requirements of the Public Finance Management Act 2012 and for the benefit of the taxpayers.

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



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi
27 February, 2014

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

2.1 Introduction

The County Government of Siaya replaced seven defunct Local Authorities namely County Council of Siaya, Town Council of Bondo, Town Council of Ugunja, Town Council of Yala, Municipal Council of Siaya, Town Council of Ukwala and County Council of Bondo. It was established after the 4 March 2013 general elections, to carry out the devolved functions set out in the constitution of Kenya.

The audit was to verify County Government preparedness to receive and utilize devolved funds after the transition period and was conducted in the month of August and September, 2013.

2.2 Terms of Reference

The Office of the Auditor-General is an independent office mandated by the constitution (Article 229) to audit the accounts of the National and County Government. In this regard the office planned an audit for the Siaya 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 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 equipments.
- 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 minutes for the meetings where there was resolution affecting management of cash.
- Physical inspection/verifications
- Verify the bank reconciliation statements as at 30 June 2013.

3 Key Audit finding

3.1 County Executive

3.1.1 Failure to close Bank Accounts

All defunct Local Authorities were to close all operating bank accounts and transfer all funds to the County Government Revenue Account and obtain a closure of accounts certificate from the banks stating the amount so transferred.

Findings

- Contrary to the above directive, the defunct Councils continued operating the accounts, some of them to date thus defeating the purpose of the circular from the Transition Authority.
- The cash books were not balanced as required hence it was not possible to ascertain cash balances as at 28 February 2013.
- No bank reconciliations were availed for audit verifications and it was not possible to ascertain the balances in the banks at any given time.
- Confirmation certificates for the bank balances and subsequent transfer to County Revenue Account were not availed for verification and confirmation, while the accounts have still not been closed as required.
- The County revenue Account was opened on 12 April 2013. Bank statements for central bank account were not availed for verification. There were also cases of un-presented cheques of Kshs.49,479,331.55 without details of clearance and bank statements. No reason was given as to why the A/c was opened while the

instructions were for all accounts to be closed. We were not able to verify the balances in the previous accounts held by the Council as no statements were availed and no reconciliations were done.

Recommendations

- Immediate closure of the bank accounts and transferring any monies in those accounts to the Revenue Account of the County Government of Siaya.
- Reconciliations should be done to ascertain the exact amount to be transferred to the County Revenue Account.
- Make available banks confirmation certificates as at the time of closure of each bank account.

3.1.1.1 Failure to take over the Defunct Municipal Council of Siaya, County Council of Siaya, County Council of Bondo, Town Council of Bondo , Town Council of Ugunja, Town Council of Yala and Town Council of Ukwala.

The County Government of Siaya had not officially taken over the assets and liabilities of the former Municipal Council of Siaya, County Council of Siaya, County Council of Bondo, Town Council of Bondo , Town Council of Ugunja, Town Council of Yala and Town Council of Ukwala as at the time of audit conclusion on 26 September 2013, contrary to instructions issued by the Ministry of Local Government vide Circular No. MLG/1333/TY/52 of 18 February, 2013. Arrangements should be made by Transition Authority to have assets and liabilities of the former Councils handed over to the County Government.

Recommendation

Transition Authority should ensure that accurate statements of assets and liabilities as at 28 February 2013 are prepared by former Councils' chief officers to enable a proper handing to the County Government. The balances will form a basis for opening balances to be recorded in the County Government books of accounts.

3.1.2 Information Financial Management Integrated System (IFMIS)

The IFMIS and G-Pay had not been installed as at 30 June 2013. The County Government had only acquired two (2) computers and very few employees had been trained. The budget making process had not been concluded to enable upload of data into the system. Payments for the period to 30 June 2013 were being done manually.

Recommendations

- Right bandwidth of the internet to support operations should be sourced.
- IFMIS should be operated fully to capacity.
- More staff members should be trained on IFMIS

3.2 Municipal Council of Siaya

3.2.1 Revenue Collection

During the period under review, the defunct Municipal Council of Siaya collected revenue totaling Kshs.5,923,134.00, out of the revenue collection only Kshs.2,807,422.00 was banked intact, resulting to a difference of Kshs.3,115,712 which was used directly by the Council without approval and also no supporting documents were availed for the expenditure. Under the circumstances the propriety of the expenditure could not be confirmed.

Recommendation

Internal controls should be strengthened in future to avoid possible loss of revenue through pilferages. Proper systems should be put in place to ensure that all revenue collections are banked intact.

3.2.2 Debtors

Records availed indicate debtors balances amounting to Kshs.9,657,493.00 had been handed over to the County Government by the defunct Municipal Council of Siaya as at 30 June 2013.

Outstanding debtor's balances were not supported by listings, debtor's registers, copies of invoices and demand notices. The outstanding debtor's balances have not been incorporated in the books of the County Government. Further, the debtors figure does not include the Parastatals Kshs.4,731,799, Single Business Permits Kshs.1,655,244 staff and councillors advances and outstanding imprest 3,265,800. Under the circumstances the debtors figure could not be confirmed.

Recommendation

Debtors' ledger should be updated regularly to reflect true position of the balances at any given time. Debt collection policy should also be put in place to ensure that debts are collected as and when they fall due.

3.2.3 Creditors

The creditors' balances amounting to Kshs.97,000,923 as at 30 March 2013 handed over to the County Government by the defunct Municipal Council of Siaya, were not supported by original contract agreements, invoices, delivery notes, statements, schedules and payrolls. Consequently the accuracy of the creditors figure could not be confirmed.

Recommendation

The Creditors ledger should be updated in order to reflect accurate creditors' position to avoid payments being made to fictitious suppliers and ghost employees. The Council should Support the creditors with all necessary documents. A forensic audit should be carried out to validate the creditors to be inherited by the County Government of Siaya.

3.2.4 Irregular Payments

- (i) Examination of Payment Voucher No. 2/251 for Kshs.105,000 paid through Cheque No.000373 showed that this payment was made to the Municipal council of Siaya. However, examination of the Cheque Counterfoil shows that this payment was made to an individual at Kshs.428,000. This payment was further not captured in the Cash book.
- (ii) In addition, Payment Voucher No. 2/203 for Kshs.350,000 paid through cheque No. 000359 showed that the payment was made to the Municipal Council of Siaya, however, the Cheque Counterfoil indicates payment was made to individual at Kshs.529,000 instead of Kshs.350,000.

Recommendation

These variances on the amount paid and the payees should be clearly established and correction should be reflected in the books and the amount accounted for properly.

3.2.5 Local Authority Transfer Fund Expenditure

During the period under review, the defunct Municipal Council of Siaya received LATF totaling Kshs.15,555,878. However, the Council spent Kshs.7,120,000.00 on Loans Account and Kshs.7,987,044.00 on salaries as at the time of audit in September 2013, contrary to the LATF Act that only 35% should be spent on salaries , while the rest to be spent on projects. Under the circumstance the council breach the Law.

Recommendation

The Council should adhere to the law, and avail approval for the excess of 35% salaries.

3.3 County Council of Siaya

3.3.1 Creditors

The creditors balances amounting to Kshs.97,000,923 handed over to the County Government by the defunct County Council of Siaya were not supported by creditor's registers, original contract agreements, invoices, delivery notes, statements, schedules and payrolls.

Recommendation

The Creditors ledger should be updated in order to reflect accurate creditors' position to avoid payments being made to fictitious suppliers and ghost employees. The Council should Support the creditors with all necessary documents. A forensic audit should be carried out to validate the creditors to be inherited by the County Government of Siaya.

3.3.2 Debtors

Records availed indicate debtors balances amounting to Kshs.15,316,884 had been handed over to the County Government by the defunct County Council of Siaya. Outstanding debtor's balances were not supported by listings, debtor's registers, copies of invoices and demand notices. The outstanding debtor's balances have not been incorporated in the books of the County Government. Further, the debtors figure does not include the staff and councilors advances and outstanding imprest. It was also noted that Plot rent of only three division are being charged instead of all seven division which are under the council no explanation was provided, while the Council is losing funds for not charging Plot rent on the remaining four division.

Recommendation

Debtors' ledger should be updated regularly to reflect true position of the balances at any given time. Debt collection policy should also be put in place to ensure that debts are collected as and when they fall due.

3.3.3 Revenue Used at Source

The revenue collected by the Council from December 2012 to February 2013 amounted to Kshs.6,861,230.00, and the Council spent directly Kshs.4,961,096. However, the cash analysis book and payment vouchers were not availed for audit verification. Under the circumstances the propriety of the expenditure could not be confirmed.

Recommendation

The County Government should put in place a strong internal control system to ensure that there is proper accountability at every stage in revenue collection cycle. All revenue collected should be banked intact and expenditure incurred recorded in cash book and properly accounted for.

3.4 County Council of Bondo

3.4.1 Creditors

The creditors balances amounting to Kshs.7,174,328.00 as at 30 March 2013 handed over to the County Government by the defunct County Council of Bondo were not supported by creditor's registers, original contract agreements, invoices, delivery notes, statements, schedules and payrolls. Consequently the accuracy of the creditors figure could not be confirmed.

Recommendation

The Creditors ledger should be updated in order to reflect accurate creditors' position to avoid payments being made to fictitious suppliers and ghost employees. The Council should Support the creditors with all necessary documents. A forensic audit should be carried out to validate the creditors to be inherited by the County Government of Siaya.

3.4.2 Revenue Shortfall

During the year under review the defunct County Council of Bondo had variation on revenue collection, as in the month of May and June 2012 collection was Kshs.10,420,988 while the same period in 2013 the collection was Kshs.4,282,985 resulting to difference of Kshs.6,133,003 which were un-reconciled and unexplained. Under the circumstance the revenue figure could not be confirmed.

Recommendation

The significant drop in collection of revenue should be investigated and collection be enforced.

3.4.3 Unsupported Procurement

During the period under review, the defunct County Council of Bondo incurred expenditure totaling Kshs.22,265,617 on Council projects implementation. However, there were no procurement supporting documents availed for the expenditure. Under the circumstances the propriety of the expenditure could not be confirmed.

Recommendation

Expenditure incurred should be properly supported and fully accounted for in accordance with Government financial regulations and procedures.

3.4.4 Missing Payment Vouchers

During the period under review, the Council incurred expenditure totaling Kshs.3,119,245.00 as per the cash book, no payment vouchers and request for the same were availed for audit verification. Under the circumstance the propriety of the expenditure could not be confirmed.

Recommendation

Expenditure incurred should be properly supported and fully accounted for in accordance with Government financial regulations and procedures.

3.5 Town Council of Bondo

3.5.1 Cash and Bank Balances

The defunct Town Council of Bondo has not closed three bank accounts being operated under Kenya Commercial Bank, Account No 1123397023, 1107094321 and 1107084032, contrary to Transitional Authority that the accounts were to be closed by 28 February 2013. The accounts have been attracting charges which were not budgeted for as at 30 June 2013 and which have accumulated to Kshs.17,138.85. Under the circumstances the bank balances could not be confirmed.

Recommendation

The County Government should ensure that bank accounts of the defunct council are closed and balances transferred to County Revenue Account for proper accountability of funds. Bank reconciliation statements for all bank accounts of the defunct council should be prepared and accuracy of the same confirmed by a senior official.

3.5.2 Bank Overdraft

During the year under review the Council operated General Rate Fund and Road Maintenance Levy, KCB Accounts under overdraft of Kshs.997,719 and 2,795 respectively. Approval and security for the overdraft were not availed for audit verification. Under the circumstances the overdraft operation figure could not be confirmed.

Recommendation

The County Government should ensure that bank accounts of the defunct council are closed. Approval and security for the overdraft should be in place for proper accountability of funds.

3.5.3 Debtors

Records availed indicate debtors balances amounting to Kshs.283,000 had not been handed over to the County Government by the defunct Town Council of Bondo. Outstanding debtor's balances were not supported by listings, debtor's registers, copies of invoices and demand notices. The outstanding debtor's balances have not been incorporated in the books of the County Government. Further, the debtors figure does not include the staff and councilors advances and outstanding imprest.

Recommendation

Debtors' ledger should be updated regularly to reflect true position of the balances at any given time. Debt collection policy should also be put in place to ensure that debts are collected as and when they fall due.

3.5.4 Creditors

The creditors balances amounting to Kshs.5,272,263 handed over to the County Government by the defunct Town Council of Bondo were not supported by creditor's registers, original contract agreements, invoices, delivery notes, statements, schedules and payrolls. Consequently the accuracy of the creditors figure could not be confirmed.

Recommendation

The Creditors ledger should be updated in order to reflect accurate creditors' position to avoid payments being made to fictitious suppliers and ghost employees. The Council should Support the creditors with all necessary documents. A forensic audit should be carried out to validate the creditors to be inherited by the County Government of Siaya.

3.5.5 Local Authority Transfer Fund Expenditure

During the year under review, the defunct Town Council of Bondo received LATF totaling Kshs.15,475,651. However, the Council spent only Kshs.2,953,409 on projects and Kshs.6,042,650 on salaries as at the time of audit in September 2013. Bank statement as at 30 June 2013 availed for audit revealed that only Kshs.1,954,998.25 was the bank balance. Under the circumstances the difference of Kshs.4,524,594 could not be confirmed how the Council accounted for.

Recommendation

The Council should adhere to the law, and avail approval for the excess of 35% on salaries. The County Government should investigate and confirm how the funds were utilized. Also, proper procedures should be followed when expenses are being incurred.

3.6 Town Council of Ugunja

3.6.1 Creditors

The creditors balances amounting to Kshs.5,742,240 as at 30 March 2013 handed over to the County Government by the defunct Town Council of Ugunja were not supported by creditor's registers, original contract agreements, invoices, delivery notes, statements, schedules and payrolls. Consequently the accuracy of the creditors figure could not be confirmed.

Recommendation

The Creditors ledger should be updated in order to reflect accurate creditors' position to avoid payments being made to fictitious suppliers and ghost employees. The Council should Support the creditors with all necessary documents. A forensic audit should be carried out to validate the creditors to be inherited by the County Government of Siaya.

3.6.2 Debtors

Records availed indicate debtors balances amounting to Kshs.31,300.00 had not been handed over to the County Government by the defunct Town Council of Ugunja as at 30 June 2013.

Outstanding debtor's balances were not supported by listings, debtor's registers, copies of invoices and demand notices. The outstanding debtor's balances have not been incorporated in the books of the County Government. Further, the debtors figure does not include the staff and councilors advances and outstanding imprest. Under the circumstances the debtors figure could not be confirmed.

Recommendation

Debtors' ledger should be updated regularly to reflect true position of the balances at any given time. Debt collection policy should also be put in place to ensure that debts are collected as and when they fall due.

3.6.3 Cash Procurement

During the year under review, the defunct Town Council of Ugunja made payments on cash basis totaling Kshs.1,200,760.00, by making cash withdrawal from the bank in order to pay suppliers of goods and services instead of making cheque payment which is the safe way to handle payments. Under the circumstances the propriety of the expenditure could not be confirmed.

Recommendation

The Council should support the payment or recovery should be made from the officers who received the money. The Council should have proper limit of cash expenses as per the government procurement regulations.

3.6.4 Local Authority Transfer Fund Expenditure

During the year under review, the defunct Town Council of Ugunja received LATF totaling Kshs.17,087,187. However, the Council spent only Kshs.282,920 on projects , Kshs.11,631,063.20 on salaries and Kshs.

5,173,203.82 on consultancy, Stationery and repayment of bank overdraft as at the time of audit in September 2013, contrary to the LATF Act that only 35% should be spent on salaries , while the rest to be spent on projects. Under the circumstance the council breach the Law.

Recommendation

The Council should adhere to the law, and avail approval for the excess of 35% on salaries. The County Government should investigate and confirm how the funds were utilized. Also, proper procedures should be followed when expenses are being incurred.

3.7 Town Council of Yala

3.7.1 Creditors

The creditors balances amounting to Kshs.47,216,900.30 as at 30 March 2013 handed over to the County Government by the defunct Town Council of Yala, were not supported by original contract agreements, invoices, delivery notes, statements, schedules and payrolls. Consequently the accuracy of the creditors figure could not be confirmed.

Recommendation

The Creditors ledger should be updated in order to reflect accurate creditors' position to avoid payments being made to fictitious suppliers and ghost employees. The Council should Support the creditors with all necessary documents. A forensic audit should be carried out to validate the creditors to be inherited by the County Government of Siaya.

3.7.2 Debtors

Records availed indicate debtors balances amounting to Kshs.1,164,727 had been handed over to the County Government by the defunct Town Council of Yala as at 30 June 2013.

Outstanding debtor's balances were not supported by listings, debtor's registers, copies of invoices and demand notices. The outstanding debtor's balances have not been incorporated in the books of the County Government. Further, the debtors figure does not include the staff advances and outstanding imprest. Under the circumstances the debtors figure could not be confirmed.

Recommendation

Debtors' ledger should be updated regularly to reflect true position of the balances at any given time. Debt collection policy should also be put in place to ensure that debts are collected as and when they fall due.

3.7.3 Unbanked Revenue

During the year under review revenue totalling Kshs.3,160,607.10 was collect and only Kshs.1,116,369.10 was banked intact resulting to a difference of Kshs.2,044,238 which has not been accounted for. Under the circumstances the revenue collection figure could not be confirmed.

Recommendation

The County Government should put in place a strong internal control system to ensure that there is proper accountability at every stage in revenue collection cycle, such as daily counter checking of receipts cash book by a senior officer and daily balancing of the cash book. All revenue collected should be banked intact and expenditure incurred recorded in cash book and properly accounted for.

3.7.4 Payroll

During the period under review, the defunct Town Council of Yala Payroll staff bio-data submitted to the County Government for the period January to March 2013 could not be verified as the salary payment vouchers and establishment budget were not availed for audit. Under the circumstance the payroll figure could not be confirmed.

Recommendation

The payroll records should be reconciled and expenditure properly supported with relevant schedules for confirmation of propriety of the payments.

3.8 Town Council of Ukwala

3.8.1 Creditors

The creditors balances amounting to Kshs.27,618,811.00 as at 30 March 2013 handed over to the County Government by the defunct Town Council of Ukwala were not supported by creditor's registers, original contract agreements, invoices, delivery notes, statements, schedules and payrolls. Consequently the accuracy of the creditors figure could not be confirmed.

Recommendation

The Creditors ledger should be updated in order to reflect accurate creditors' position to avoid payments being made to fictitious suppliers and ghost employees. The Council should Support the creditors with all necessary documents. A forensic audit should be carried out to validate the creditors to be inherited by the County Government of Siaya.

3.8.2 Debtors

Records availed indicate debtors balances amounting to Kshs.2,827,039.00 had been handed over to the County Government by the defunct Town Council of Ukwala as at 30 June 2013.

Outstanding debtor's balances were not supported by listings, debtor's registers, copies of invoices and demand notices. The outstanding debtor's balances have not been incorporated in the books of the County Government. Further, the debtors figure does not include the Single Business Permits, staff and councillors advances and outstanding imprest. Under the circumstances the debtors figure could not be confirmed.

Recommendation

Debtors' ledger should be updated regularly to reflect true position of the balances at any given time. Debt collection policy should also be put in place to ensure that debts are collected as and when they fall due.

3.8.3 Direct Revenue Expenditure

During the period under review, the Council made revenue collection totaling Kshs.5,374,802.00, out of which Kshs.1,071,193.00 was used at the source resulting to a difference of Kshs.1,754,679.00 which could not be reconciled or explained and how it was accounted for. Under the circumstance the revenue figure could not be confirmed.

Recommendation

The County Government should put in place a strong internal control system to ensure that there is proper accountability at every stage in revenue collection cycle, such as daily counter checking of receipts cash book by a senior officer and daily balancing of the cash book. All revenue collected should be banked intact and expenditure incurred recorded in cash book and properly accounted for.

3.8.4 Local Authority Transfer Fund Expenditure

During the year under review, the defunct Town Council of Ukwala received LATF totaling Kshs.20,499,929. However, the all amount went to personnel emoluments as at the time of audit in September 2013, contrary to the LATF Act that only 35% should be spent on salaries , while the rest to be spent on projects. Under the circumstance the council breach the Law.

Recommendation

The Council should adhere to the law, and avail approval for the excess of 35% on salaries. The County Government should investigate and confirm how the funds were utilized. Also, proper procedures should be followed when expenses are being incurred.

Conclusion

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



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

27 February, 2014