

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

**REPORT**

**OF**

**THE AUDITOR–GENERAL**

**ON THE**

**FINANCIAL OPERATIONS**

**OF**

**THE COUNTY GOVERNMENT OF**  
**BUSIA AND ITS DEFUNCT**  
**LOCAL AUTHORITIES**

**FOR THE PERIOD**  
**1 JANUARY TO 30 JUNE 2013**

## Contents

1.0	Introduction.....	1
1.1	Audit Objectives.....	1
1.2	Key Audit Findings and recommendations.....	2
1.2.1	Busia County Executive and County Assembly .....	2
1.2.2	County Council of Busia .....	4
1.2.2.3	Imprest.....	5
1.2.3	Municipal Council of Busia .....	5
1.2.4	Town Council of Nambale .....	8
1.2.5	Town Council of Port Victoria.....	10
1.2.6	Town Council of Malaba .....	11
1.2.6.4	Non-current Assets.....	13
1.2.7	County Council of Teso.....	13
1.2.8	The Town Council of Funyula .....	15
1.2.9	Information Systems assessment .....	16
1.3	CONCLUSION.....	19
1.0	Introduction.....	21
1.1	Terms of Reference .....	21
1.2	Methodology.....	22
2.0	DETAILED FINDINGS .....	22
2.1	COUNTY GOVERNMENT OF BUSIA. ....	22
2.1.1	Cash and Bank.....	22
2.1.2	Motor Vehicle & Office Equipment .....	23
2.1.3	Unaccounted for fuel .....	23
2.1.4	Weaknesses in Accounting and Internal Control systems. ....	24
2.1.5	Lack of serialization and appropriate numbering of payment vouchers .....	24
2.1.6	Failure to observe cut-off/end-of-year procedures .....	24
2.1.7	Failure to maintain/keep Main Cash book.....	24
2.1.8	Improper accounting for imprest.....	24

2.1.9	Failure to process payments completely .....	24
2.1.10	Inadequate segregation of duties .....	25
2.1.11	Un-supported payments .....	25
2.1.12	Un-accounted for Imprest-Kshs.3,443,281 .....	25
2.1.13	Outstanding Imprest – Kshs.6,179,410 .....	25
2.1.14	Personnel Emoluments .....	25
2.1.15	Renovation of County Offices .....	26
2.1.16	Renovation of Governors Offices .....	26
2.1.17	Grilled Perimeter Wall Kshs.7,657,055.60 .....	26
2.2	COUNTY COUNCIL OF BUSIA .....	27
2.2.1	Cash and Bank .....	27
2.2.2	Failure to Maintain Accurate Debtors and Creditors Records .....	27
2.2.3	Motor Vehicle and Office Equipment .....	27
2.2.4	Un-Banked Revenue .....	28
2.2.5	Local Authority Transfer Fund (LATF) .....	28
a)	Unsupported Payments Kshs.6,444,044.00 .....	28
2.2.7	Un-authorized Employment of Sixteen (16) New Staff .....	29
2.3	MUNICIPAL COUNCIL OF BUSIA .....	29
2.3.1	Cash and Bank .....	30
2.3.2	Debtors .....	30
2.3.3	Creditors .....	30
2.3.4	Motor Vehicle and Office Equipment .....	30
2.3.5	Revenue .....	31
2.3.8	Un-supported Expenditure .....	31
2.3.10	Use of Inappropriate Procurement Method .....	32
2.3.11	Un-explained Bank Transactions .....	32
2.3.12	Over-payment for Insurance Services .....	32
2.3.13	Failure to Implement LASDAP Projects .....	33
2.4	TOWN COUNCIL OF NAMBALE .....	33
2.4.1	Creditors /Payables .....	33

2.4.2	Motor Vehicles and Equipment.....	33
2.4.3	Payroll.....	34
2.4.4	Local Authority Transfer Fund (LATF).....	34
b)	Unauthorized Payments .....	35
c)	Unaccounted for LATF receipts Kshs.14,319,182.....	35
d)	Failure to implement LATF budgeted projects .....	35
e)	Failure to Close Bank accounts.....	36
2.5	TOWN COUNCIL OF PORT VICTORIA .....	36
2.5.1	Debtors/Receivables .....	36
2.5.3	Failure to Provide Expenditure Records of Local Authority Transfer Fund (LATF).....	37
2.5.4	Failure to Comply with Transition Authority directive on Closure of bank accounts .....	37
2.5.5	Un-accounted for Revenue .....	38
2.6	TOWN COUNCIL OF MALABA .....	38
2.6.1	Debtors and Creditors .....	38
2.6.2	Revenue .....	38
2.6.3	Local Authority Transfer Fund (LATF) – Kshs.23,329,398.....	39
2.6.4	Un-authorized Employment of New Staff.....	39
2.6.5	Non-current Assets.....	39
2.6.6	Failure to Close bank accounts .....	40
2.7	COUNTY COUNCIL OF TESO .....	40
2.7.1	Cash and Bank.....	40
2.7.2	Debtors and Creditors .....	40
2.7.3	Motor Vehicle and Equipment.....	41
2.7.4	Revenue .....	41
2.7.5	Local Authority Transfer Fund (LATF).....	42
2.8	THE TOWN COUNCIL OF FUNYULA.....	43
2.8.1	Cash and Bank.....	43
2.8.2	Debtors / Receivables .....	43
2.8.3	Account Payables/Creditors- Kshs.4,286,714.00 .....	44

2.8.4	Motor Vehicles and Equipment.....	44
2.8.5	Revenue .....	45
2.8.6	LATF-Operating expenses .....	45
2.8.7	Non-implementation of LATF Projects Kshs. 4,530,427.00 .....	45
2.8.8	Payroll.....	46
3.1	Hardware.....	46
3.2	Servers .....	46
3.3	Network Connectivity.....	46
3.4	Integrated Financial Management Information System (IFMIS).....	47
3.5	Local Authority Integrated Financial Operations Management System (LAIFOMS).....	48
3.6	G-PAY.....	49
3.7	Integrated Payroll and Personnel Database (IPPD).....	49
3.8	IT Control Environment.....	49
3.8.2	Management of IT Operations .....	50
3.8.3	Physical Controls .....	51

# **REPORT OF THE AUDITOR-GENERAL ON THE COUNTY GOVERNMENT OF BUSIA AND ITS DEFUNCT LOCAL AUTHORITIES FOR THE PERIOD 1 JANUARY TO 30 JUNE 2013**

---

## **EXECUTIVE SUMMARY**

### **1.0 Introduction**

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

According to Transition to Devolved Governments Act, 2012, after the general 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.

### **1.1 Audit Objectives**

The audit covered the County Executive and County Assembly and the former Busia Municipal Council, County Council of Busia, County Council of Teso, Town Council of Nambale, Town Council of Port Victoria, Town Council of Malaba and Town Council of Funyula 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 obtaining requisite documentation and information in relation to the exercise 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.

## **1.2 Key Audit Findings and recommendations**

### **1.2.1 Busia County Executive and County Assembly**

#### **1.2.1.1 Current assets and liabilities**

##### **i) Cash and Bank**

There was no Board of cash survey and certificate of bank balances as at 30/06/2013 and Monthly Bank reconciliation statement.

There were no records of closing bank and cash balances from the defunct Local Authorities except for County Council of Busia which had transferred Kshs.3,333,064.78 from its account number 01002036501001 at National Bank of Kenya to County Revenue Fund Account number 1140748017 in the same bank on 15 March, 2013

The County Executive should ensure that the certificates of bank balances and board of cash survey as at 30/06/2013 are obtained and bank reconciliations done and Bank accounts of the defunct Councils closed and the balances transferred to County Revenue Account.

##### **ii) Operating Revenue**

The receipt cash book availed showed that in four months i.e. March 2013-June 2013 the County Government collected a total revenue of Kshs.67,187,327.00 while banking slips showed total of Kshs.66,695,370.00 hence an under banking of Kshs.491,957.00. Further, it was noted that the daily and monthly abstracts of receipt were not maintained.

The County Executive should put in place a strong internal control system to ensure that there is proper accountability at every stage in the revenue collection cycle. Revenue collection control sheets should be maintained by the Revenue Officer, who must ensure that official receipts are issued whenever revenue is surrendered.

### **1.2.1.2 Non- Current Assets**

#### **Motor Vehicle & Office Equipment**

There was no authentic list of assets taken over by the County Government from the defunct Local Authorities. The County Government does not maintain an assets register and has no consolidated list of all its assets.

The County Government should ensure that all assets under its custody are properly recorded in a register, labeled and updated on a regular basis.

### **1.2.1.3 Procurement of goods and services**

#### **i) Unaccounted for fuel**

In the month of May 2013, the County Government spent Kshs.514,700.00 on fuel. However, the following observations pertaining to fuel were noted:

- Fuel register was not maintained for the fuel committed in bulk
- The detail order to show how fuel was drawn were not provided
- Delivery notes were not availed, and
- Local Purchase Orders were not provided to show how the fuel was procured.

The County Executive should ensure as a matter of procedure that there is a record of all fuel committed in bulk in the fuel register, raise LPO while purchasing fuel in bulk, issue drivers with detail orders for control purposes when drawing committed fuel, provide delivery notes for any fuel purchased and record fuel entries in the work tickets

#### **ii) Un-supported payments**

Most of payments made by the County lacked authorization signatures of the Principal Finance Officer and/or approval of Head of Treasury (Accounting). Other payments were made on the strength of Imprest requisition form only but not a duly completed payment voucher. Payments totaling Kshs.4,514,914.00 were not supported with documentary evidence and were still in the payment voucher booklets even though they had been posted in the cashbook.

#### **iii) Renovation of County and Governor's Offices**

It was not possible to confirm propriety of expenditure totaling Kshs.4,063,835.00 in respect of a Kshs.7,590,750.00 contract awarded to a contractor, Arsene Agencies Ltd in the absence of supporting documentary evidence and payments totaling Kshs.4,199,647.00 to Stuttgart Engineering Company for a contract award of Kshs.4,466,280.00 since the documents were the Ethics and Anti-Corruption Commission (EACC) for investigations.



#### **iv) Grilled Perimeter Wall**

A payment of Kshs.3,198,836.90 being part of a Kshs.7,657,055.60 contract award to a Contractor to construct a grilled perimeter wall was not supported with documentary evidence including certificates of works done..

Documents supporting the above expenditures should be provided failure to which, culpable officer(s) be surcharged.

#### **1.2.1.4 Un-accounted for Imprest**

Imprest totaling Kshs.3,443,281 was issued to two employees without filling and processing of Imprest warrants and recording in Imprest register. In addition, the imprests were posted in the payments cashbook as payments.

Further, the County records as at 12/9/2013 reflect imprests totaling Kshs.6,179,410.00 that were outstanding with some issued prior to surrender of previous ones contrary to Government Financial Regulations and Procedures.

The County Executive should ensure imprests are surrendered within 24 hours after officers return to duty station, failure to which imprests must be recovered from their salaries.

### **1.2.2 County Council of Busia**

#### **1.2.2.1 Current Assets and Liabilities**

##### **i) Failure to Maintain Accurate Debtors and Creditors Records**

Although the Council disclosed debtors and creditors balances as Kshs. 5,430,011 and Kshs. 25,604,339 respectively, the accuracy of these figures could not be ascertained due to the fact that the Council did not maintain verifiable ledgers, listings and documentary evidence to support the balances.

The County should maintain the necessary ledgers and other accounting records. The creditors should be promptly recorded in the ledgers detailing particulars of each creditor and the same updated on a regular basis. The creditors' balances should be confirmed independently before effecting any payments.

##### **ii) Un-Banked Revenue**

A comparison of bank pay-in slips and receipts cash book revealed that out of a total of Kshs.17,139,560 of revenue collected between July 2012 and February 2013, only Kshs. 16,232,819 was banked. Hence the difference of Kshs.960,741 was not accounted for or may have been spend at source.

This amount of Kshs.960,741 should be investigated and a claim put up for a refund. The County management should put in place a strong internal control system to ensure that there is proper accountability at every stage in the revenue collection cycle. Revenue collection control sheets should be maintained by the Revenue officer, who should ensure that official receipts are issued whenever revenue is surrendered.

#### **1.2.2.2 Local Authority Transfer Fund (LATF)**

The Council received the first and second disbursements of LATF totaling to Kshs.106,574,197.00 but did not implement LATF projects amounting to Kshs.11,020,330.00 as identified during the LASDAP process. During the period, payments amounting to Kshs.6,444,044.00 were not supported with documentary evidence.

The County Government should Implement LATF projects as identified during the LASDAP process by the defunct Council and account for all the un supported payments.

#### **1.2.2.3 Imprest**

Examination of Imprest register revealed that Council employees and former Councilors have long outstanding imprest totaling Kshs.2,372,811.

The County Government should recover the amount from the employees/Councilors.

#### **1.2.2.4 Un-authorized Employment of Sixteen (16) New Staff**

Sixteen (16) new staff were employed in the month of January, 2013 contrary to the Permanent Secretary's directive suspending regular employment. Available information indicates that the approval for the employment was obtained on 9 November 2012 vide letter MLG/438-60(3) signed by R.W.Sikulu for the PS. The Ministerial approvals were not availed for audit.

The County Executive should obtain a letter from the Accounting Officer confirming the approval.

### **1.2.3 Municipal Council of Busia**

#### **1.2.3.1 Current Assets and Liabilities**

##### **i) Cash and Bank**

All the Council's seven (7) bank accounts held with National Bank of Kenya and Family Bank were not closed as required by the directive of Transition Authority.

The County Government should ensure that bank accounts of the defunct Councils are closed and balances transferred to County Revenue Account

## **ii) Debtors and Creditors**

Debtors balances outstanding as at 30 June 2013 comprised of the following categories; Plot Rates Kshs.33,558,541.00, CILLOR Kshs.21,158,225.00, Kiosk Rent.Kshs.1,156,883.00, House Rent Kshs.460,078.00 and Stall Rent Kshs. 294,100.00

The creditors/payables balances amounted to Kshs.66,121,342.55. These figures were not supported by listing, schedules and supporting documentation and the debtors' ledger had not been updated since June, 2012.

The debtors and creditors balances should be validated and amounts recorded in the registers. In addition creditors balances should be independently confirmed before payments.

## **iii) Revenue**

A comparison of the revenue collected from January - June 2013 with the collections in the same period last year revealed a slight increase of Kshs.533,985.00 from Kshs.31,031,015.00 to Kshs.31,565,000.00 .There were ten(10) series of miscellaneous receipt books extracted from the Counterfoil Receipt book Register (CRBR) used between January and June 2013 that could not be traced in the strong room and made available for audit. Accuracy of the revenue collection figure of Kshs.31,565,000.00 could therefore not be ascertained.

A comparison of the receipts against the bank deposit slips revealed underbankings of revenue of Kshs.471,885.00 for the months of March to June 2013.

The under banking of Kshs.471,885.00 should be investigated and a claim put up for a refund. The County Government should put in place a strong internal control system to ensure that there is proper accountability at every stage in the revenue collection cycle. Revenue collection control sheets should be maintained by the Revenue officer, who should ensure that official receipts are issued whenever revenue is surrendered.

### **1.2.3.2 Non - Current assets**

#### **Motor Vehicle and Office Equipment**

Tractor KAG 562G Ford was sold but the item was still reflected in the Council's register and there was no documentary evidence to confirm disposal proceeds and value and the successful bidder. During the year, 8 computers/back-up were

bought and not recorded in the assets register and list of furniture and equipment and tools was not made available.

The County Government should include the omitted computers in the assets register, provide schedule of furniture and equipment and documentary evidence to support disposal and revenue receipt of the tractor Reg. no. KAG 562G.

#### **1.2.3.3 Local Authority Transfer Fund**

The Council received Kshs.54,885,039 as LATF during the period . However, the following control weaknesses and irregularities were noted:

##### **i) Un-supported Expenditure**

Payments totaling Kshs.6,285,546.50 made from Local Authority Transfer Fund (LATF) were without requisite supporting documents such as invoices, delivery notes, payrolls, and Council minutes, among others.

All payment vouchers should be adequately and appropriately supported before payment is made.

##### **ii) Missing Payment Vouchers**

Payment vouchers totaling worth Kshs.3,693,338 recorded in the cash book were not made available for audit.

Account for all missing payment vouchers.

##### **iii) Use of Inappropriate Procurement Method**

A review of the payments for purchase of murram and hardcore for rehabilitation of the trailer park revealed that low-value procedure of procurement was used. In addition, the procurement was split resulting in small and frequent purchases of the materials.

Further, physical verification on 12 September, 2013 revealed that there was no noticeable work done on the trailer park.

The Public Procurement and Disposal Act, 2005 and related regulations of 2006 should be followed to ensure that goods and services are procured competitively and at the most economical prices.

##### **iv) Un-explained Bank Transactions**

Examination of cheque counterfoils revealed that cheque number 001318 was issued on 13 July, 2012 to transfer Kshs.5 million from LATF account. However, it was not y clear to which account the transfer was being effected.

Further, on 10 October 2012, the bank recovered Kshs.6,304,872.45 from the Council's account describing it as loan repayment even though the Council's

bank account did not show any outstanding overdraft facility of the same amount. At the time of making the recovery, the bank account was only overdrawn by Kshs.416,290.24

Documentary evidence that satisfactorily explains these transactions should be provided.

**v) Over-payment for Insurance Services**

Three payments totaling Kshs.717,794 were made as insurance cover for Council vehicles. However, examination of letter/invoice attached to payment vouchers showed that the premium for insurance cover for the three motor vehicles was only Kshs.170,295.

Recover the over-paid money.

**vi) Failure to Implement LASDAP Projects**

During the 2012/13 financial year, the Council did not implement any of its budgeted projects estimated to cost Kshs. 25,500,000.

The County Government should implement LATF projects as identified during the LASDAP process by the defunct Council.

## **1.2.4 Town Council of Nambale**

### **1.2.4.1 Current Assets and Liabilities**

**i) Failure to Close Bank accounts**

The nine (9) bank accounts operated by the Council only two accounts had been closed. Although letters instructing the banks to close the accounts were issued on 19 March 2013, evidence of the closure was not available during the time of audit.

One bank account (No. 01120235752500) held with Cooperative Bank of Kenya was operated by Council officials till April 2013 and remained opened by end of June 2013.

Ensure that bank accounts of the defunct Councils are closed and balances transferred to County Revenue Account

Full compliance with legal directives is recommended.

**ii) Creditors /Payables**

The total amount of creditors (payables) of Kshs.17,830,958.75 was made up of Kshs.15,805,946.00 and Kshs.1,364,584.75 as Salary arrears and Retirees

benefits respectively. Kshs.725,883 was owed to former Councilors in the form of outstanding allowances.

However, only summarized schedules were provided for audit in support of these balances without corresponding ledgers. The ledger available was last updated in the year 2010.

Creditors should be validated and recorded in the register. In addition creditors balances should be independently confirmed before payments.

#### **1.2.4.2 Payroll**

The Council management had paid the staff salaries for November 2012, December 2012 and January 2013 without preparing the three months' payrolls.

The Council instead used the payroll for October 2012 to make November, December and January 2013 salary payments.

Monthly payrolls should be prepared, authorized and arithmetic accuracy checked by independent people before payment of salary.

#### **1.2.4.3 Local Authority Transfer Fund (LATF)**

##### **i) Unsupported Payments**

The audit inspection revealed that all payments totaling Kshs.12,165,470 made from LATF were without requisite supporting documents such as invoices, delivery notes, payrolls, and Council minutes, among others.

It was further observed that payments from LATF were made without the approval/authority of the Town Treasurer. The payments were, therefore, made only on the basis of the Town Clerk's authorization. Besides, all payment vouchers were not checked by the internal auditor.

All payment vouchers should be adequately and appropriately supported before payment is made and dully authorized.

##### **ii) Failure to record/disclose LATF receipts**

The Council budgeted for LATF of Kshs.14,319,182. However, the actual amount received from the Government was not recorded and/or disclosed. Bank statements for the LATF account were not also availed.

All monies received for public expenditure should be appropriately recorded, disclosed and accounted for.

### **iii) Failure to implement LATF budgeted projects**

The Council did not implement all its budgeted capital projects of Kshs.4,800,000. The budget did not, however, uniquely identify these projects (i.e. construction of classrooms and shallow wells were repeated in the budget without specifying the schools or location of the wells). In addition debt owed to Kenya Revenue Authority of Kshs. 2,000,000 was not settled either under debt resolution even though it was budgeted for.

The County Government should implement LATF projects as identified during the LASDAP process by the defunct Council.

## **1.2.5 Town Council of Port Victoria**

### **1.2.5.1 Current Assets and Liabilities**

#### **i) Debtors/Receivables**

An examination of debtors' records (ledger book, debtors' schedule, list of plot owners and business owners) revealed the following:

- The debtors ledger is not in agreement with the schedule provided to support the ledger
- The debtors' ledger was not continuously updated with receipts from them (if any).
- The balances in the schedules as at 30 June 2013 of Kshs. 664,700 are not adequately supported and may not be accurate.

A thorough scrutiny and reconciliation of all books of account and records to ascertain the true position of receivables and payables for the Council before a formal take-over by County Government should be done.

#### **ii) Creditors/Payables**

The Council, in its hand over report to the County Government dated 7 August 2013, showed that its current liabilities as at 28 February 2013 amounted to Kshs.15,243,273 which differed with the balance of Kshs.5,402,224 reflected in the ledger book

A thorough scrutiny and reconciliation of all books of account and records to ascertain the true position of receivables and payables for the Council before a formal take-over by County Government should be done.

**iii) Failure to Provide Expenditure Records of Local Authority Transfer Fund (LATF)**

The payments cashbook, the payment vouchers, bank statements and approved budget for LATF were not made available for audit.

The clerk and Treasurer should avail these documents and account for all the funds received.

**1.2.6 Town Council of Malaba**

**1.2.6.1 Current Assets and Liabilities**

**i) Debtors and Creditors**

Debtors balances could not be verified because an authentic list of debtors with necessary supporting schedules were not availed for audit. The available ledger was not reliable since it had not been updated since 2010.

The amount of creditors of Kshs.12,814,631.68 calculated from the individual creditors statements and letters could not be verified either because the Council did not update its ledger. In addition, the accuracy of the creditors' balances is doubtful since common payables such as salary arrears were not included.

A thorough scrutiny and reconciliation of all books of account and records should be undertaken in order to ascertain the true position of receivables and payables for the Council before a formal take-over by County Government is done.

**ii) Revenue**

A comparison of the receipt cash book and banking in slips for the period June 2012 to February 2013 showed that there was an under-banking of Kshs.1,229,640.00 that could not be justified. In addition, Daily and monthly abstracts of receipts were not updated as from January, 2013 to the time of the audit.

The Kshs.1,229,640.00 amount not accounted for should be recovered from the responsible officer(s). 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.



**iii) Failure to Comply with Transition Authority directive on Closure of bank accounts**

It was noted that the management issued letters to their bankers instructing them to close five bank accounts on 19 March, 2013 a date that is way past the required closure date of 28 February, 2013. In addition, there was no confirmation from the banks of the closure and transfer of balances to County Revenue account. Further the Council did not carry out Cash Survey on 28 February to establish cash on hand balances, if any.

Failure to close bank accounts implied that revenue collections continued to be banked in these accounts, and expenditure incurred, contrary to the law.

Expenditure incurred during the period should also be investigated and confirmed as proper charge to public funds. Bank confirmations and evidence of transfer of account balances to County Revenue account should be availed for verification.

**iv) Un-accounted for Revenue**

The audit inspection revealed that out of the total revenue collected of Kshs.3,950,002.00 between January and June 2013, only Kshs.3,114, 245 had been banked leaving a balance of Kshs.835,837 was not banked, hence unaccounted for.

This amount of 835,837 should be investigated and a claim put up for a refund. The County management should put in place a strong internal control system to ensure that there is proper accountability at every stage in the revenue collection cycle. Revenue collection control sheets should be maintained by the Revenue officer, who should ensure that official receipts are issued whenever revenue is surrendered.

**1.2.6.2 Local Authority Transfer Fund (LATF)**

Records and documents supporting all LATF transactions during the period under review were not availed which included the cashbook, supporting documentations bank statements and approved budget.

Proper books of account should be maintained and made available for audit and the County government should strictly comply with the LATF and Public Audit Act.

**1.2.6.3 Un-authorized Employment of New Staff**

Two new employees were included in the payroll for the month of February 2013 contrary to Ministry directive freezing employment.

The chief officers should be held accountable for the irregular employment.

#### **1.2.6.4 Non-current Assets**

No list of assets owned by the Council was prepared and made available for audit and the Assets Register had not been updated since 2010. Seven motor vehicles were surrendered to the County Government without any formal handing over procedures and documentation. The County Government should ensure that a master Fixed Assets Register is maintained which should clearly indicate the locations of the equipment and motor vehicles. Ownership documents for all vehicles should also be obtained.

### **1.2.7 County Council of Teso**

#### **1.2.7.1 Current assets and liabilities**

##### **i) Cash and Bank**

The Council had three bank accounts held at the Kenya Commercial Bank in respect of LATF, GRF and Cess,. The salaries account was operated at the family Bank. The Council did not provide certificates of balances, main cashbook, bank statements and bank reconciliation statements to support its bank transactions and balances as at 4/3/2013. Further there was no Board of survey to confirm the cash on hand and there were no reports on handing/taking over by the County Government In addition; there was no evidence to confirm the closure of the bank accounts.

The County Government should adhere to the Transition Authority directive on closure of bank accounts, update and main cashbook on monthly a basis and prepare bank reconciliation statements. The status of the bank accounts and balances therein should be confirmed.

##### **ii) Debtors and Creditors**

Debtors, creditor, ledgers and documentary evidence in support of balances were not produced and presented to us for audit verification.

Appropriate accounting systems for recording debtors and creditors by the County Government should be developed to ensure accuracy of records. Also, debt collection policy should be put in place to facilitate collection of County debts as and when they fall due. A thorough scrutiny and reconciliation of all books of account and records to ascertain the true position of receivables and payables for the Council before a formal take-over by County Government must be done.

### **1.2.7.2 Non- Current Assets**

#### **Motor Vehicle and Equipment**

An authentic list of fixed assets taken over by the County Government was not presented for audit. Some vehicles were taken to the County headquarters but no documentary evidence was availed in support of such transfers. One computer was reportedly stolen from the office and a motor cycle KAB 483Q was said to be in Nakuru for repairs. The last work-ticket was for April 2009 and it is not known when the said motorcycle was taken to Bhogulas Garage in Nakuru.

The County management should ensure that a comprehensive assets register is maintained, updated regularly and verification of assets fast-tracked for proper handing over to take place. The missing computer should be identified.

### **1.2.7.3 Revenue**

#### **i) Under-collections in 2013**

A comparison of the revenue collected from January to June 2013 with the collections in the same period last year revealed a drastic drop in the collections from Kshs.6,481,504.00 to Kshs.1,526,160.00. These results to a reduction of revenue collected in the said period by over 400%.

#### **ii) Unaccounted for Revenue**

Revenue totaling Kshs.575,920 made up of Kshs.541,000.00 described as miscellaneous receipts but being collection not captured in the receipts cash book and an under-banking of Kshs.34,920.00 could not be accounted for.

#### **iii) Use of Revenue at source**

Revenue collection of Kshs.296,547.00 was used at source between January and June 2013 to pay for expenses which were not supported with documentary evidence

The irregularly paid amounts of Kshs.296,547.00 and Kshs.575,920 should be recovered from the responsible officers who knowingly did not account for the cash. The County management should put in place a strong internal control system to ensure that there is proper accountability at every stage in the revenue collection cycle.

### **1.2.7.4 Local Authority Transfer Fund (LATF)**

The Council received LATF fund from the Ministry. However, bank statements to confirm the receipts were not made available for audit. Payments amounting Kshs.49,590,810.40 were made between the month of July 2012 and March 2013. However, the following anomalies were observed:-

- i) Unsupported transfer of Kshs.11,200,000.00 from LATF Account No. 1106326814 KCB Malaba to salaries Account No 077000013925 at Family Bank Bungoma.
- ii) Unsupported payments of Kshs.18,264,446.00.
- iii) Payments of Kshs.6,223,854.00 without authorization by Chief Officer.
- iv) Payment Vouchers amounting to Kshs.6,189,810.00 were not availed.
- v) Goods and Services amounting Kshs.16,226,887.00 were procured irregularly without using required procurement procedures.
- vi) Payments of Kshs.2,312,560.00 was made without certificate of work done issued by relevant technical ministry.

All payments should be supported by relevant supporting documents and duly authorized.

Missing payment vouchers should be availed.

Procurement procedures should be followed as required by the public procurement and regulations 2006.

## **1.2.8 The Town Council of Funyula**

### **1.2.8.1 Current Assets and Liabilities**

#### **i) Debtors / Receivables**

The Town Council debtors ledgers have not been updated since 2007 hence accuracy and validity of balances to be taken over by the County government could not be confirmed. A comparison of the debtor's schedule furnished to the County Office revealed that some debtors were omitted on the schedules while others were understated.

The County Government should develop an appropriate system for recording debtors to ensure accuracy of the records. Also, debt collection policy should be put in place to facilitate collection of County debts as and when they fall due.

#### **ii) Account Payables/Creditors- Kshs.4,286,714.00**

The Creditors balances taken over by the County includes Statutory deductions of Kshs.1,725,671.00 and Non statutory of Kshs.2,561,043.00. There was no information or documentary evidence availed to confirm accuracy and validity of these balances.

All creditors should be promptly recorded in a ledger indicating detailed transactions and particulars of each creditor and the same updated on a regular basis. No payments should be made before independent confirmation of authenticity of the creditors.

#### **1.2.8.2 Revenue**

There was under-banking of revenue of Kshs.63,950 on the Busia County Revenue Collection A/c Number 1140748017 and the Council LATF A/C No 110520830 during the period 8/3/2013 and 3/5/2013. While the period between 1/1/2013 to 4/3/2013, the daily and monthly Abstract of Receipts records were not prepared and revenue was not banked. It was not noted that the Council did not use the Counter Foil receipt Register to record and account for the receipt books.

These under-bankings should be recovered from the respective staff members of the County Assembly. The County Government should ensure that a receipts cashbook is maintained where revenue collected is promptly recorded and strong internal control system put in place to ensure proper accountability of revenue at every stage in the revenue collection cycle

#### **1.2.8.3 LATF-Operating expenses**

The audit inspection revealed that payment vouchers totaling Kshs.6,126,471.00 had not been supported with any relevant supporting documents

The irregularly paid amount should be recovered from the accounting officer who knowingly authorized the payment. The County Assembly should ensure that future expenditure of any nature is supported with the relevant documentation.

The Council did not implement capital project totaling Kshs.4,530,427.00 earmarked for LATF during the year.

#### **1.2.8.4 Payroll**

There were 13 employees of the Council on the payroll with a gross wage bill of Kshs.387,120.00 save for the month of April 2013 which had a gross wage bill of Kshs.599,483.00. The increase in wage of Kshs.212,263.00 was not justified by the County Government. This amount should be investigated and appropriate action taken.

### **1.2.9 Information Systems assessment**

#### **1.2.9.1 Hardware**

The County received nineteen (19) computers from The National Treasury (IFMIS Department) which were solely being used for IFMIS. The County also received one computer from the central bank for the G-PAY.

#### **1.2.9.2 Integrated Financial Management Information System (IFMIS)**

IFMIS operations were being carried at the Office of the Governor; however, at time of audit, the County was not using the Procure to Pay module in the IFMIS and payments were being executed manually.

Reasons given for not using IFMIS for payment processing include;

- i. Lack of adequate training for the users
- ii. The ICT staff have not been trained at all for them to offer the support
- iii. Poor connectivity
- iv. Lack of support from IFMIS department.

#### **1.2.9.3 G-Pay**

The County had received two computers from The National Treasury which are dedicated for G-Pay.

#### **1.2.9.4 Local Authority Integrated Financial Operations Management System (LAIFOMS)**

LAIFOMS had only been in 3 Sub - Counties: Municipal Council of Busia, County Council of Busia, and Malaba Town Council.

The Expenditure Module was automatically disabled from 30 June, 2013 and from 1 July, 2013 the budget was prepared through IFMIS.

We were denied access to the system in Busia County Council hence no data.

There was an under banking of Kshs.8,275,284 for the period 1 July 2012 to 3 March, 2013 and Kshs.13,681,581 for the period, 4 March to 17 September, 2013 as indicated below.

Teso County Council had an outdated version of LAIFOMS and had stopped using it for revenue collection.

#### **1.2.9.5 Integrated Payroll and Personnel Database (IPPD)**

The County had fully implemented the IPPD system and the payroll beginning July 2013 was processed using the system.

Six (6) users had been trained on the use of the system. The data that was migrated into IPPD from LAIFOMS had the following integrity issues:

- There were forty-one (41) officers with Incorrect Tax Personal Identification Numbers.

- There were eight (8) officers whose date of hiring was blank.

#### **1.2.9.6 IT Control Environment And ICT Governance**

The County had nine (9) ICT staff to provide support to the applications in place. The staff had relevant knowledge and skills on IT field but they had not been trained on the application in place i.e. LAIFOMs, IPPD and IFMIS for them to be able to offer adequate support to the system users.

The County management is 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 and the ICT policies and procedures in place had not been approved.

The IPPD and G-PAY servers are located in the human Resource office and accounts office respectively where accessibility is not restricted with adequate physical access controls.

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.

In addition:

- 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 the G-PAY system.
- iii. The County should ensure that all its financial operations are automated.
- iv. There is need to liaise with IFMIS Department to install a communication enhancer to boost the signal transmission so as to ensure continuous delivery of service.
- v. The County should also follow up with the acquisition of routers from the IFMIS Department so that they can use a Fiber connection which is faster and reliable.
- vi. IFMIS Directorate should train and give priority to the staff of the ICT Department when conducting its training.

- vii. The ICT Department should ensure that all machines are installed with anti-virus software to prevent the risk of virus attacks.
- viii. 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.
- ix. 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.
- x. A head count of the County staff should be done.
- xi. The County should carry out a data clean-up of its human resource data to ensure the integrity of the payroll data.
- xii. The query function in the IPPD should be enabled to serve the counter users adequately.
- xiii. 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.
- xiv. The ICT staff should also be trained in all the system applications in place for them to offer adequate support.
- xv. 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.
- xvi. The County should ensure that a properly constituted IT Steering Committee is in place.
- xvii. Physical access controls to the server room need to be reinforced.
- xviii. The servers should be placed on a raised floor.

### **1.3 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.

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

**Edward R.O. Ouko, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**3 March 2014**

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

## **1.0 Introduction**

The County Government of Busia, took over the defunct Local Authorities namely; Busia Municipal Council, County Council of Busia, County Council of Teso, Town Council of Nambale, Town Council of Port Victoria, Town Council of Malaba and Town Council of Funyula following the General Election on 4 March, 2013. The County Government was established to carry out the devolved functions to the County.

The special audit exercise was to verify County Government preparedness to receive and utilize devolved funds before, during and after transition period.

## **1.1 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 Busia 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 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

## **1.2 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, banking 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.

## **2.0 DETAILED FINDINGS**

### **2.1 COUNTY GOVERNMENT OF BUSIA.**

#### **2.1.1 Cash and Bank**

##### **Issues noted**

- No Board of cash survey and certificate of bank balances as at 30/06/2013 were availed.
- Monthly Bank reconciliation statement were done
- No records of closing bank and cash balances from the defunct Local Authorities save for County Council of Busia .The defunct Council had transferred Kshs.3,333,064.78 from its account number 01002036501001 at National Bank of Kenya to County Revenue Fund Account Number 1140748017 same bank on 15/3/13

Ensure the certificates of bank balances and board of cash survey as at 30/06/13 are obtained and bank reconciliations done.

### **2.1.2 Motor Vehicle & Office Equipment**

There was no authentic list of assets taken over by the County Government from the defunct Local Authorities.

The County Government does not maintain an assets register and has no consolidated list of all its assets.

The County Government should ensure that all assets under its custody are properly recorded in an assets register, labeled and updated on a regular basis.

### **Operating Revenue**

- From the receipt cash book availed, it was noted that in four months, March 2013, June 2013, the County Government collected total revenue of Kshs.67,187,327.00 while banking in slips showed a total of Kshs.66,695,370.00 hence an under banking of Kshs.491,957.00
- The daily and monthly abstracts of receipt were not maintained.

Put in place a strong internal control system to ensure that there is proper accountability at every stage in the revenue collection cycle. Revenue collection control sheets should be maintained by the Revenue officer, who should ensure that official receipts are issued whenever revenue is surrendered.

### **2.1.3 Unaccounted for fuel**

In the month of May 2013, the County Government spent Kshs.514,700.00 on fuel. The following observations were noted

- Fuel register was not maintained for the fuel committed in bulk
- The detail order to show how fuel was drawn were not provided
- Delivery notes were not availed
- Local Purchase Orders were not provided to show how the fuel was procured
- Record all the fuel committed in bulk in the fuel register
- Raise LPO while purchasing fuel in bulk
- Issue drivers with detail orders for control purposes when drawing committed fuel
- Provide delivery notes for any fuel purchased

- Make entries in the work tickets

#### **2.1.4 Weaknesses in Accounting and Internal Control systems.**

##### **Failure to use budget/financial management control system/tool**

The management did not employ an appropriate system/tool to ensure expenditures are within budget. The manual vote book, for instance, did not serve the intended purpose because not all expenditures were recorded in the vote book. When they were recorded, this was done after the payment has already been made. Recording and classification of transactions is fully manual. This resulted in an overshoot of budget for some items such as travel cost. It also made classification inaccurate.

##### **2.1.5 Lack of serialization and appropriate numbering of payment vouchers**

Payment vouchers were not serially numbered or assigned a unique identification number. Some payment vouchers were not numbered at all. Failure to assign a unique number to each payment voucher makes identification and accounting difficult.

##### **2.1.6 Failure to observe cut-off/end-of-year procedures**

The management did not institute financial cut-off procedures at the end of 2012/13 financial year, i.e. on 30 June 2013. Standing imprest was issued to Sub-County stations on 28 June, 2013 without regard to closing of the financial year. This in effect may have resulted in inaccurate recording of expenditure for 2012/13.

##### **2.1.7 Failure to maintain/keep Main Cash book**

It was observed that the County Government has largely adopted the system of accounting used by the defunct local authorities. In this system, separate receipts and payments cash books are maintained.

##### **2.1.8 Improper accounting for imprest**

Imprest advanced to County staff and Sub-Counties are treated as payments in the payment cashbook. This cause difficulties in further accounting and made it appear unnecessary.

##### **2.1.9 Failure to process payments completely**

Most payment vouchers lack authorization of the Principal Finance Officer and/or approval of Head of Treasury (Accounting). Other payments were made on the

strength only Imprest requisition form only not on a duly completed payment voucher.

#### **2.1.10 Inadequate segregation of duties**

The payment cashier is responsible for preparation of payment vouchers, making the actual payments and custodian payment vouchers but does not write the payment cashbook. This implies that he is responsible for collecting and collating supporting documents for all payment vouchers and at the same time releasing money against the same payment vouchers.

Design and implement appropriate budgetary control and financial management system which ensure proper management and control of, and accounting for, the finances at the County Government in order to promote efficient, effective and prudent use of the budgetary resources.

#### **2.1.11 Un-supported payments**

Original payment vouchers with a sum of Kshs.10,320,867.00 were still in the payment voucher booklets and lacked the requisite supporting documents even though they had been posted in the payment cashbook.

All payment vouchers should be sufficiently supported and authorized.

#### **2.1.12 Un-accounted for Imprest-Kshs.3,443,281**

Imprest of Kshs.3,443,281 listed in the table 1 below was issued to two employees without filling and processing of Imprest warrants and recording in Imprest register. In addition, the imprests were posted in the payments cashbook as payments.

#### **2.1.13 Outstanding Imprest – Kshs.6,179,410**

Kshs.6,179,410.00 was held in form of imprests which were outstanding as at 12/9/2013.

There were cases of additional impress being issued out in disregard of earlier imprests still outstanding one.

Imprest should be surrendered within 24 hours upon return to the station or after purchase of goods and services, failure to which full recovery should be made from officers' salary.

#### **2.1.14 Personnel Emoluments**

Examination of County Government payroll/ IPPD for June 2013 revealed that, the County Government of Busia had a total workforce of 550. These were

consolidated from the former County Councils of Teso, Malaba, Nambale, Funyula, Port Victoria, Busia and Busia Municipal Councils.

The process of constituting the County Public Service Board is nearly complete.

The County Government has already issued appointment letters to most of the successful members of the Board on full time basis.

- The County Public Service Board members should not be on full time basis since they attend 8 sittings per month
- Members of the County Public Service Board, except for the Secretary, should serve on part time basis. This will reduce the wage bill of the Government by over Kshs.15 million per annum.
- The advice is as per section 58-4b of the County Government Act 2012.

#### **2.1.15 Renovation of County Offices**

Four quotations were received and the contract awarded to Arsene Agencies Ltd at Kshs.7,590,750.00 vide Tender Committee Meeting minute SA/CTA/14/2013/2014 of 6/6/13. An amount of Kshs.4,063,835.00 was paid on 28/6/13 by cheque number 111. However, the payment voucher was not verified since it had been taken by The Ethics and Anti-Corruption Commission (EACC) for investigations. (Refer to EACC's letter EACC/KSM.6/15/4.(71) of 5/8/13 requesting for documents and Governor's letter CB/AD/EACC/1.VOL1 of 13/8/13 releasing the documents). Certificates of works done were not made available.

Avail the payment voucher(s) and certificates of works done for audit verification.

#### **2.1.16 Renovation of Governors Offices**

Three quotations were received and the contract awarded at a sum of Kshs.4,466,280.00 vide Tender Committee Meeting minute BSA/7/2013/2014 of 6/6/13. Kshs.4,199,647.00 was paid on 28/6/13 by cheque number 97. However, the payment voucher was not verified since it had been taken by The Ethics and Anti-Corruption Commission (EACC) for investigations. (Refer to EACC's letter EACC/KSM.6/15/4.(71) of 5/8/13 requesting for documents and Governor's letter CB/AD/EACC/1.VOL1 of 13/8/13 releasing the documents).

Avail the payment voucher(s) and certificates of works done for audit verification.

#### **2.1.17 Grilled Perimeter Wall Kshs.7,657,055.60**

Five quotations were received. For the construction of grilled perimeter wall and contract awarded to Rapola General Contractors Ltd at Kshs.7,657,055.60 vide Tender Committee Meeting minute BSA/12/2013/2014 of 6/6/13. The amount paid was Kshs.3,198,836.90 on 28/6/13 via Electronic Fund Transfer.

The payment voucher was not availed for audit verification.

Avail the payment voucher(s) and certificates of works done for audit verification.

## **2.2 COUNTY COUNCIL OF BUSIA**

The following control weaknesses, misstatements and irregularities were observed.

### **2.2.1 Cash and Bank**

All bank accounts had certificate of bank balances as at 28 February 2013.

Available information revealed that only Account number 01002036501001 held with National Bank of Kenya was duly closed on 15 March, 2013 and the balance of Kshs.3,333,064.78 transferred to Busia County Revenue Fund Account. There was no evidence to show closure of the other bank accounts.

In addition, cash survey was not carried out to establish the cash on hand on 28 February 2013.

Ensure that bank accounts of the defunct Councils are closed and balances transferred to County Revenue Account.

### **2.2.2 Failure to Maintain Accurate Debtors and Creditors Records**

Although the Council disclosed Debtors and creditors balances as Kshs.5,430,011 and Kshs.25,604,339 respectively, the accuracy of these figures could not be ascertained because the Council did not maintain verifiable ledgers for these items.

Maintain the necessary ledgers and other accounting records

### **2.2.3 Motor Vehicle and Office Equipment**

The assets register was maintained but not updated regularly hence, the exact numbers of equipment and tools and their respective values at the Council. Further;

- There was no authentic list of assets furnished to the County Government and the handing over had not been done.
- The following motor vehicles were not physically verified as they were said to be out for repairs:
  - i) KAV 814E Pajero Mitsubishi was said to be in Kisumu for repairs.



- ii) KAM 035T was said to be in Kitale. Work ticket K232651 for August 2013 indicated that the vehicle went for service on 8/8/2013.
- The asset register indicated 2 back-up generators but only one could be physically verified.
- The assets register should be updated.
- Verification of the assets should be fast-tracked for the handing over to take place.
- Details of the trade-in for the generator should be availed.

#### **2.2.4 Un-Banked Revenue**

A comparison of bank pay-in slips and receipts cash book revealed that out of a total of Kshs.17,139,560 of revenue collected between July 2012 and February 2013 only Kshs.16,232,819 was banked. This implies that Kshs.960,741 was not banked and may have been spend at source.

- Put in place a strong internal control system to ensure that there is proper accountability at every stage in the revenue collection cycle. Revenue collection control sheets should be maintained by the Revenue officer, who should ensure that official receipts are issued whenever revenue is surrendered.
- Maintain debtors and creditors ledger.
- Account for the un banked revenue.

#### **2.2.5 Local Authority Transfer Fund (LATF)**

The Council received the first and second disbursements of LATF totaling Kshs.106, 574,197.00 during the period. However, the following control weaknesses were noted in the administration of the Fund:

##### **a) Unsupported Payments Kshs.6,444,044.00**

The Council made payments amounting to Kshs.6,444,044.00 without any support documents such as cash sales, Invoices, delivery notes and LPO's / LSO 'S.

The Council should account for all the un supported payments documents

##### **b) Failure to Implement LATF Projects**

The Council did not implement LATF projects amounting to Kshs.11,020,330.00 as identified during the LASDAP process.

The County Government should Implement LATF projects as identified during the LASDAP process by the defunct Council

#### **2.2.6 Un-surrendered Imprests**

Examination of Imprest register revealed that Council employees and former Councilors have outstanding imprest of Kshs.2,372,811 as listed below which have been outstanding for a long time.

The County Government should ensure these amounts are surrendered and accounted for failure to which outstanding amounts to be recovered from employees salaries. Former councils should be held liable failure to which appropriate action included litigation be instituted to them.

The County Government should ensure these amounts are surrendered and accounted for failure to which, outstanding amounts to be recovered from employees salaries. Former Councils should be held liable failure to which appropriate action including litigation be instituted to them.

#### **2.2.7 Un-authorized Employment of Sixteen (16) New Staff**

Ministry of Local Government Circular Ref. MLG 1308/XII (79) of 27 September, 2012 suspended regular employment due to difficulties on management of wage bills.

“Given the above, it is directed that regular employment be suspended to avoid bloating the wage bills at a time when major changes are being planned”, reads the circular in part.

Sixteen (16) new staff were employed in the month of January 2013 contrary to the Permanent Secretary’s directive suspending regular employment.

Available information indicates that the approval for the employment was obtained on 9 November 2012 through a note from the Permanent Secretary vide letter MLG/438-60(3) signed on behalf of Permanent Secretary. The Ministerial approvals being communicated have not been availed for audit review.

A letter of commitment by the Accounting Officer should be procedurally provided to confirm the approval.

### **2.3 MUNICIPAL COUNCIL OF BUSIA**

The following control weaknesses, misstatements and irregularities were observed.

### **2.3.1 Cash and Bank**

All the Council's seven (7) bank accounts held with National Bank of Kenya and Family bank were not closed as required by the directive of Transition Authority.

In addition, the Council's management did not carry out a cash survey to ascertain the cash on hand balances on 28 February, 2013.

### **2.3.2 Debtors**

The figures were not supported by schedules and debtors ledger had not been updated since June 2012.

### **2.3.3 Creditors**

The creditors/payables amounted to Kshs.66,121,342.55 between January and April 2013.

The creditors/payable's ledger was not updated as at the time of the audit. In the absence of the updated creditors ledger it was not possible to confirm the accuracy of the creditors balance of Kshs.66,121,342.55.

Debtors and Creditors should be validated and recorded in the register. In addition creditors balances should be independently confirmed before payments.

### **2.3.4 Motor Vehicle and Office Equipment**

- The list of assets handed /taken over was made available and dated 7 August, 2013. There were signatures to confirm the handing/taking over between the Council and the County Government teams.
- Tractor KAG 562G Ford was sold but the item was still in the Council's register with no evidence of disposal value, minutes and successful bidder. Council's vehicle log books were available.
- During the year, 8 computers/back-up were bought.
- List of Furniture and equipment and tools was not made available.
- Assets register was maintained.

Consequently, the Assets/Liabilities balances were not fully disclosed in the handing/taking over reports

- Include the omitted computers in the assets register.
- Provide schedule of Furniture and equipment
- Minutes of tender for disposal of tractor KAG 562G be provided

### **2.3.5 Revenue**

The following were observed on revenue transactions:

- A comparison of the revenue collected from January-June 2013 with the collections in the same period last revealed an increase from Kshs.31,031,015.00 to Kshs.31,565,000.00
- The following miscellaneous receipt books extracted from the Counterfoil Receipt Book Register (CRBR) used between January and June 2013 could not be traced in the strong room and made available for audit.

### **2.3.6 Under-banking**

A comparison of the receipts against the bank deposit slips revealed undertakings of revenue collected of Kshs.471,885.00 for the months of March to June 2013

- Put in place a strong internal control system to ensure that there is proper accountability at every stage in the revenue collection cycle. Revenue collection control sheets should be maintained by the Revenue officer, who should ensure that official receipts are issued whenever revenue is surrendered.

### **2.3.7 Local Authority Transfer Fund**

The Council received Kshs.54,885,039 as LATF. However the following control weaknesses and irregularities were noted.

### **2.3.8 Un-supported Expenditure**

Payments totaling Kshs.6,285,546.50 made from Local Authority Transfer Fund (LATF) were without requisite supporting documents such as invoices, delivery notes, payrolls, and Council minutes, among others. Details of these payments are given in Table 1 below.

All payment vouchers should be adequately and appropriately supported before payment is made.

### **2.3.9 Missing Payment Vouchers**

Payment vouchers worth Kshs.3,693,338 and recorded in the cash book were not made available for audit.

In the circumstances, the propriety of the total expenditure of Kshs,3,693,338 could not be ascertained.

Account for all missing payment vouchers.

### **2.3.10 Use of Inappropriate Procurement Method**

A review of the payments in respect of murram and hardcore for rehabilitation of the trailer park revealed that low-value procedure of procurement was used. In addition, the procurement was split resulting in and frequent purchases of the materials were carried.

Further, through physical verification on 12 September, 2013 it was observed that there was no noticeable work done on the trailer park.

The Split procurement and use of inappropriate procurement procedure implies an attempt to avoid competition and transparency in procurement.

The Public Procurement and Disposal Act, 2005 and related regulations of 2006 should be followed to ensure that goods and services are procured competitively and at the most economical prices.

### **2.3.11 Un-explained Bank Transactions**

Examination of cheque counterfoils revealed that cheque number 001318 was issued on 13 July, 2012 to transfer Kshs.5 million from LATF account. However, it was not immediately clear to which account the transfer was being effected.

Further, on 10 October 2012, the bank recovered Kshs.6,304,872.45 from the Council's account describing it as loan repayment even though the Council's bank account did not show any outstanding overdraft facility of that amount. At the time of making the recovery, the bank account was only overdrawn by Kshs.416,290.24

Failure to provide satisfactory and documentary explanation for the above transaction may imply possible misappropriation of funds.

Documentary evidence that satisfactorily explains these transactions should be provided and account for unclear transaction of Kshs.11,304,872.45.

### **2.3.12 Over-payment for Insurance Services**

Three payments (details in table 3) totaling Kshs.717,794 were made as insurance cover for Council vehicles. However, examination of letter/invoice attached to payment vouchers show that the premium for insurance cover for the three motor vehicles was only Kshs.170,295. The over-payment of Kshs.547,499 represent payments for services not offered and implies failure to obtain value on spending of public funds.

Recovery of the over-paid money should be made.

### **2.3.13 Failure to Implement LASDAP Projects**

During the 2012/13 financial year, the Council did not implement any of its budgeted projects estimated to cost Kshs.25,500,000.

The County Government should implement LATF projects as identified during the LASDAP process by the defunct Council.

## **2.4 TOWN COUNCIL OF NAMBALE**

### **2.4.1 Creditors /Payables**

The total amount of creditors (payables) of Kshs.17,830,958.75 was made up of Kshs.15,805,946.00 and Kshs.1,364,584.75 as Salary arrears and Retirees benefits respectively. Another Kshs.725,883 was owed to former Councilors in form outstanding allowances.

However, only summarized schedules were provided for audit in support of these balances without corresponding ledgers to further support the balances. The ledger available was last updated in the year 2010.

The Creditors /Payables balance of Kshs.8,208,555.27 could not be confirmed as fairly reflected.

Creditors should be validated and recorded in the register. In addition creditors balances should be independently confirmed before payments

### **2.4.2 Motor Vehicles and Equipment**

The list of assets as at 6 August, 2013 that were handed /taken over was made available. However, there are no signatures to confirm the handing /taking over between the Council and the County Government teams. We observed that:

- The Council did not have any vehicles.
- Ownership documents for the Council land had not been processed.
- Assets register was not maintained.
- Physical verification of the assets as per schedule revealed omissions of: a Computer serial No.6529-Knz-WIOM, keyboard SSD-KB-901 model LCD 1560NX-BK, and Monitor SNo.46155525YB.

In the circumstances, Assets/Liabilities were not fully disclosed in the handing /taking over reports

The County Government should ensure that all assets under its custody are properly recorded in a register, labeled and the register updated on a regular basis.

Ownership documents should also be processed.

### **2.4.3 Payroll**

The Council management had paid the staff salaries for November 2012, December 2012 and January, 2013 without preparing the three months' payrolls.

The Council instead used the payroll for October 2012 to make November, December and January 2013 salary payments.

The number of staff transferred to the County and their scales were noted.

It was therefore not possible to establish if the paid salaries were properly due and arithmetically accurate.

Prepare monthly payrolls; let them be authorized and arithmetic accuracy checked by independent people before payment of salary.

### **Outstanding Councilors' Allowances**

Former Councilors' had outstanding allowances amounting to Kshs.725,883.00 which were not supported by creditors' ledger.

Without the corresponding and updated ledgers it was not possible to ascertain the accuracy of the creditors' balances as contained in the schedules.

Scrutiny and reconciliation of accounting records and documents in order to establish the true position of creditors should be carried out.

### **2.4.4 Local Authority Transfer Fund (LATF)**

#### **Failure to attach supporting documents on Payment Vouchers**

The following control weaknesses were observed about the administration of LATF.

#### **a) Unsupported Payments – Kshs.12,165,470**

Regulation 15.5.14 of Government Financial Regulations and Procedures requires that payment voucher should be subjected to scrutiny to ensure that it is complete in all aspects and all payment procedures have been complied with. In addition, the payment voucher is authorized for payment by the A.I.E. holder or authorized official.

Section 1(c) of Local Authority Financial Management Regulations of 2007 states that all payments shall be supported by payment vouchers accompanied by appropriate documents.

The audit inspection revealed that all payments totaling Kshs.12,165,470 made from LATF were without requisite supporting documents such as invoices, delivery notes, payrolls, Council minutes, among others. Making payments on the basis of un-supported payment vouchers implies that the propriety of the expenditure involved could not be ascertained.

All payment vouchers should be adequately and appropriately supported before payment is made.

**b) Unauthorized Payments**

It was further observed that payments from LATF were made without the approval/authority of the Town Treasurer. The payments were, therefore, made only on the basis of the Town Clerk's authorization. Besides, all payment vouchers were not checked by the internal auditor.

Absence of Treasurer's approval and checking by the internal auditor is risky because the expenditure is not subjected to necessary controls.

All payments should be properly processed and all certificates filled/signed.

**c) Unaccounted for LATF receipts Kshs.14,319,182**

The Council budgeted for LATF of Kshs.14,319,182. However, the amount actually received from the Government was not recorded and/or disclosed. Bank statements for the LATF account were not also availed.

Failure to record and disclose the amount of LATF money received from Central Government implies that it was not possible to ascertain whether the full amount has been accounted for.

All monies received for public expenditure should be appropriately recorded, disclosed and accounted for.

**d) Failure to implement LATF budgeted projects**

The Council did not implement all its budgeted capital projects of Kshs.4,800,000. The budget did not, however, uniquely identify these projects (i.e. construction of classrooms and shallow wells were repeated in the budget without specifying the schools or location of the wells). In addition debt owed to Kenya Revenue Authority of Kshs.2,000,000 was not settled either under debt resolution even though it was budgeted for.



Failure to implement budgeted projects implies that the public is denied the benefit of services from these projects. At the same time value for money may not have been obtained from LATF funds.

The County Government should implement LATF projects as identified during the LASDAP process by the defunct Council.

#### **e) Failure to Close Bank accounts**

We observed that out of the nine (9) bank accounts operated by the Council only two accounts had been closed and the closure confirmed by the Council's bankers. Although letters instructing the banks to close the accounts were issued on 19 March 2013, evidence of the closure was not available.

One bank account (No. 01120235752500) held with Cooperative Bank of Kenya was operated by Council officials till April 2013 and remained opened by end of June 2013.

Failure to close the bank accounts as directed is risky because the accounts may have been used for unauthorized transactions.

The Council should ensure that bank accounts of the defunct Councils are closed and balances transferred to County Revenue Account and full compliance with legal directives is recommended.

## **2.5 TOWN COUNCIL OF PORT VICTORIA**

### **2.5.1 Debtors/Receivables**

An examination of debtors' records (ledger book, debtors' schedule, list of plot owners and business owners) revealed the following.

- The debtors ledger is not in agreement with the schedule provided to support the ledger
- The debtors' ledger was not continuously updated with receipts from debts
- The balances in the schedules as at 30 June, 2013 of Kshs.664,700 are not adequately supported and may not be accurate.

### **2.5.2 Creditors/Payables**

The Council, in its hand over report to County Government dated 7 August, 2013 showed that its current liabilities as at 28 February, 2013 amounted to Kshs.15,243,273. However, a scrutiny of the creditors' ledger book revealed various discrepancies.

Failure to maintain appropriate books of account with adequate supporting documentation implies that the account balances for these items may be materially misstated. As a result the true position of current liabilities and assets has not been ascertained.

A thorough scrutiny and reconciliation of all books of account and records to ascertain the true position of receivables and payables for the Council before a formal take-over by County Government should be done.

### **2.5.3 Failure to Provide Expenditure Records of Local Authority Transfer Fund (LATF)**

The payments cashbook, the payment vouchers, bank statements and approved budget were not made available for audit despite making several requests for them.

In the absence of the referred records and documents, it was not possible to ascertain the following:

- amount of funds received
- the propriety of expenditure involved
- the balance of funds

The clerk and Treasurer should account for all the funds received.

### **2.5.4 Failure to Comply with Transition Authority directive on Closure of bank accounts**

It was noted that the management issued letters to their bankers instructing them to close five bank accounts on 19 March, 2013. This date is way past the required closure date of 28 February, 2013. In addition, there was no confirmation from the banks of the closure and transfer of balances to County Revenue account.

Further the Council did not carry out Cash Survey on 28 February, 2013 to establish cash on hand balances, if any.

The cash and bank balances for transfer to the County Government could not be confirmed.

Bank confirmations to be availed and evidence of transfer of account balances to County Revenue account provided.

### **2.5.5 Un-accounted for Revenue**

The audit inspection revealed that out of a total revenue of Kshs.3,950,082 collected between January and June 2013, only Kshs.3,114, 245 had been banked. This implies that Kshs.835,837 was not banked. Evidence of expenditure from this amount of revenue was not provided for audit scrutiny as well.

Failure to bank all revenue collected intact is irregular. As a result, it could not be ascertained how the amount of Kshs.835,837 from revenue was spent and/or the propriety of the related expenditure.

Financial laws and regulations governing public funds should be complied.

Additional amount of Kshs.835, 837.00 should be accounted for.

## **2.6 TOWN COUNCIL OF MALABA**

### **2.6.1 Debtors and Creditors**

Debtors balances could not be verified because an authentic list of debtors with necessary supporting schedules was not available for audit. The available ledger was not reliable since it had not been updated since 2010.

The creditors balance of Kshs.12,814,631.68 calculated from the individual creditors statements and letters could not be verified either, because the Council had not update its ledger. In addition, the completeness of the creditors' balances is doubtful because common payables such as salary arrears were not included.

The debtors and creditors balances have not been accurately determined.

A thorough scrutiny and reconciliation of all books of account and records to ascertain the true position of receivables and payables for the Council before a formal take-over by County Government should be done.

### **2.6.2 Revenue**

A comparison of receipt cash book and banking in slips for the period June 2012 to February, 2013 showed that there was an under-banking of Kshs.1, 229,640.00

In addition, daily and monthly abstracts of receipts were not updated as from January, 2013

Failure to bank all revenue collected intact is risky because it exposes public funds to misappropriation and weakens the control over the related expenditure.

All revenue collections should be banked intact as required by financial laws and regulations.

### **2.6.3 Local Authority Transfer Fund (LATF) – Kshs.23,329,398**

Records and documents supporting LATF expenditure were not made available for verification. Some of the documents were payments cashbook, the payment vouchers, bank statements and approved budget were not made available for audit despite making several requests for them.

In the absence of the referred records and documents, it was not possible to ascertain the propriety of expenditure incurred using LATF.

Books of account should be made available for audit and there should be strict compliance with the procurement and procedures governing LATF.

### **2.6.4 Un-authorized Employment of New Staff**

Two new employees were included in the payroll for the month of February 2013 contrary to the Ministry directive freezing employment.

Recruiting additional staff contrary to the directive has the implication of further bloating the wage bill.

The chief officers should be held accountable for irregular employment

### **2.6.5 Non-current Assets**

The following weaknesses were observed on non-current assets (Motor vehicles and office equipment):

- A full list of assets owned by the Council was not prepared and made available for audit.
- The Assets Register had not been updated since 2010.
- Seven motor vehicles had been surrendered to the County Government without any formal handing over procedures.

The inventory of assets owned by the Council before, during and after transition could not be ascertained. The movement of assets during the transition period may have resulted in loss of assets and/or lack of accountability.

The County Government should ensure that all assets under its custody are properly recorded in a register, labeled and the register updated on a regular basis.

### **2.6.6 Failure to Close bank accounts**

The Council did not provide evidence of compliance with the Transition Authority (TA) directive to close all bank accounts by 28 February, 2013. Although communication with the Council's bankers was made available, it was observed that the LATF account held with Kenya Commercial Bank remained operational up to 31 August 2013. It is apparent that the management of the Council did not make a follow up with the bankers to effect closure of the accounts.

We request for bank confirmations to be availed and evidence of transfer of account balances to County Revenue account.

## **2.7 COUNTY COUNCIL OF TESO**

### **2.7.1 Cash and Bank**

- The Council had the following bank accounts: At the Kenya Commercial Bank account numbers were 110632814, 110632660 and 11018444260 for LATF, GRF and Cess respectively. Salaries account number 077000013925 was operated at the Family Bank.
- The Council did not provide certificates of balances, main cashbook, bank statements and bank reconciliation statements to support its bank balance as at 4/3/2013. Further there was no Board of survey to confirm the cash on hand.
- There were no reports on handing/taking over by the County Government. In addition there was no evidence to confirm the closure of the bank accounts.

The status of cash and bank balances could not be ascertained

- The County Government should adhere to the TA directive
- Update the bank reconciliation and main cashbook updated on monthly basis.
- Confirm the status of the bank accounts

### **2.7.2 Debtors and Creditors**

- Debtors and creditors ledgers were not made available for audit verification.
- There were no lists to show the balances of both items as at 31 December 2012, 28 February and 30 June, 2013.
- Statements of account balances from both the debtors and creditors were not availed for audit verification

The creditors and Debtors balances could not be confirmed

A thorough scrutiny and reconciliation of all books of account and records to ascertain the true position of receivables and payables for the Council before a formal take-over by County Government is done.

### **2.7.3 Motor Vehicle and Equipment**

- A schedule of current assets was availed but there was no authentic list of current assets taken over by the County Government.
- Some vehicles were taken to the County headquarters but no documentary evidence was availed in support of such transfers.
- One computer was reportedly stolen from the office.
- A motor cycle KAB 483Q was said to be in Nakuru for repairs. The last work-ticket for the motorcycle was in April 2009 and it is not known when the said Motor cycle was taken to a Garage in Nakuru.

Prepare and maintain a proper assets register and account for all assets for hand over to the County government.

### **2.7.4 Revenue**

#### **i) Under-collections in 2013**

A comparison of the revenue collected from January to June 2013 with the collections in the same period last year revealed a drastic drop in the collections from Kshs.6,481,504.00 to Kshs.1,526,160.00. This translates to a reduction of revenue collected in the said period by over 400%.

It appears there was laxity in revenue collection during the Transition period.

#### **iii) Unaccounted for Revenue Kshs. 575,920.00**

This was a result of Kshs.541,000.00 collected through miscellaneous receipts which were not captured in the receipts cash book and an under-banking of Kshs.34,920.00.

#### **iv) Use of Revenue at source Kshs. 296,547.00**

- Kshs.296,547.00 was used at source between Jan and June 2013
- Most of the payments were not supported by the relevant documents.

The County Government should:

- Intensify revenue collection efforts.

- Account for receipts amounting to Kshs.575,920.
- Avoid use of revenue at source

### **2.7.5 Local Authority Transfer Fund (LATF)**

Verification of a sample of Kshs.33,271,932.40 being 67.09% of the payments revealed control weaknesses were noted in the administration of the Fund:

#### **i) Unsupported Transfers of Kshs.11, 200,000.00**

The Council transferred Kshs.11,200,000.00 from LATF A/C No.1106326814 KCB Malaba to Salaries A/c No.077000013925 at Family bank Busia without providing both bank statements in support of the transfers.

Avail the bank statements to support interbank transfers.

#### **ii) Unsupported Payments Kshs.18,264,446.40**

The Council made payments amounting to Kshs.18,264,446.00 without any support documents such as cash sales, Invoices, delivery notes and LPO's / LSO 's. Propriety of the expenditure could not be confirmed.

The County Government should account for the expenditure and avail the supporting documentation or else recover full amount from the responsible officers.

#### **iii) Unauthorized Payments Kshs.6,223,854.00**

Payments of Kshs.6,223,854.00 were made without authorization by the chief officers.

The propriety of the expenditure could not be ascertained.

Ensure authorization of payment vouchers before their final payments

#### **iv) Missing Payment Vouchers Kshs.6,189,810.00**

The Council did not avail payment Vouchers amounting to Kshs.6,223,845.00 for our audit verification hence, expenditure could not be verified.

payment vouchers should be availed for audit verification

#### **v) Single Sourced Goods and Services Kshs.16,226,887.00**

Goods and services amounting to Kshs.16,226,887.00 were procured without tendering and or placing of quotations as required by Public Procurement and Disposal Act, 2005 and Regulations 2006. Goods and services were not competitively sourced and the Council may not have got value for money

The Public Procurement and Disposal Act, 2005 and Regulations 2006 should be adhered to when sourcing for goods and services.

**vi) Payments Made Without Certificate of Works Done Kshs.2,312,560.00**

Payments amounting to Kshs.2,312,560.00 were made without certificate of works done.

Payments may have been made for works not done.

An engineer/works officer should certify works done before commencement of any payments on works.

**v) Payroll**

A comparison made between the payrolls for July 2012, December 2012, January and March 2013 revealed that there were changes in the payroll.

The change in the salary scales was not supported by the relevant authority and the additional employment in March 2013 was after a ban had been imposed on new recruitments.

The chief officers should be held answerable for unapproved employment.

## **2.8 THE TOWN COUNCIL OF FUNYULA**

### **2.8.1 Cash and Bank**

- LATF bank Kenya Commercial Bank (KCB) A/C Number 1105250830 was closed on 20 March with a balance of Kshs.16,797.15 as per certification of bank balance and the amount transferred to County Revenue Fund Account no. 11140748017 at KCB Busia. As at 14 June, 2013 it had a balance of Kshs.15,147.15.
- GRF Family Bank a/c number 079000005093 and 0790000053333 had Kshs.1,924.00 and Kshs. 200 respectively. Both accounts were to be credited with some funds to facilitate their closure.

Bank confirmations should be availed and evidence of transfer of account balances to the County Revenue account be provided.

### **2.8.2 Debtors / Receivables**

Debtors' ledger is maintained but most of the entries have not been updated since 2007



A comparison of the debtor's schedule furnished to the County office revealed the following discrepancies;

Some debtors were omitted on the schedules

In some cases, amounts owed were understated

The debtor's balance of Kshs.867.700.00 could not be confirmed as fairly stated

- Debtors' ledger should be availed together with working papers and schedules supporting the balances
- Statement of account balances and other relevant records should be availed for audit verification.
- Working papers and schedules supporting the balances should be availed

### **2.8.3 Account Payables/Creditors- Kshs.4,286,714.00**

These were made up of:

1. Statutory deductions Kshs.1,725,671.00
  2. Non statutory deductions Kshs.2,561,043.00
- Total Kshs.4,286,714.00

- Creditors' ledger was not availed during the audit.
- Working Papers and schedules in support of the makeup of the balances were not availed.

The creditors' balance of Kshs.4,286,714.00 could not be confirmed as fairly stated.

- Creditor's ledger should be availed together with working papers and schedules supporting the balances should be availed.
- Statement of account balances and other relevant records should be availed for audit verification.
- Working papers and schedules supporting the balances should be availed

### **2.8.4 Motor Vehicles and Equipment**

- The list of assets handed /taken over was not made available. There were no documentation to confirm the handing /taking over between the Council and the County Government teams.
- The assets as listed did not have values.

- While the laptop model HP G 60 had serial number 4 CD9430C28 the typewriter was not serialized.
- Assets register was not maintained.

Assets were not fully disclosed on the list.

An Assets register should be maintained

The said assets should be handed over.

### **2.8.5 Revenue**

There was under-banking of revenue on the Busia County Revenue Collection A/c number 1140748017 and the Council LATF A/C No 110520830 during the period.

There were no records to show collections for the same period in the previous financial year.

For the period 1/1/2013 to 4/3/2013 Daily Abstract of Receipts/Monthly Abstract of Receipts were not maintained. Further, Revenue was not banked during this period. The Council did not use the Counter Foil receipt Register to record and account for the receipt books.

However, a Cashbook was maintained and the collection sheets and CRBR were made available during the period

The County Government should:

- Maintain the Daily/monthly Abstract of receipts.
- Bank the receipts intact and promptly.
- Account for the under banking

### **2.8.6 LATF-Operating expenses**

The audit inspection revealed that payment vouchers totaling Kshs.6,126,471.00 had not been supported.

Support documents should be provided.

### **2.8.7 Non-implementation of LATF Projects Kshs. 4,530,427.00**

- The Council received the 2<sup>nd</sup> LATF disbursement of Kshs.4,395,487.00 on 22.2.2013.

- The 1<sup>st</sup> disbursement could not be confirmed because the bank statements were not availed.
- The Council budgeted to undertake the following projects of which none was undertaken.

Failure to implement projects denies the common man the much needed service.

The County Government should implement LATF projects as identified during the LASDAP process by the defunct Council

### **2.8.8 Payroll**

There were 13 employees of the Council on the payrolls. The Council's payrolls for the months of July and December 2012, January, February and April 2013 were made available for verification .Each payroll had a gross wage bill of Kshs.387,120.00 save for the month of April 2013 which had a gross wage bill of Kshs.599,483.00 a variance of Kshs.212,263.00 The cause of the variance was not explained.

The IPPD payroll for the month of June 2013 was not made available and change in the gross wage bill by Kshs.212,263.00 was not explained

The cause of the variance that led to the increase in the wage bill by Kshs.212,263.00 in the month of April 2013 should be investigated.

## **3.0 Information Systems Assessment**

### **3.1 Hardware**

The County received nineteen (19) computers from The National Treasury (IFMIS Department) which were solely being used for IFMIS. The County also received one computer from the central bank for the G-PAY. The Interim ICT manager confirmed that the computers were in good condition although they have not been used for the IFMIS operations.

### **3.2 Servers**

The County had in place four (4) operating servers at each of the Sub-counties, where revenue was being collected using LAIFOMS, and one for IPPD.

### **3.3 Network Connectivity**

There was no established Wide Area Network at the County to connect various Sub-County offices. However, there were Local Area Networks (LAN) in four (4) Sub-County offices; Office of the Governor, Busia Municipal Council and Busia

County Council, Teso and Malaba. There was no internet connection at the Bundalangi, Funyula, Butula and Nambale Sub-County offices.

The fact that there is 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 processes.

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.

### **3.4 Integrated Financial Management Information System (IFMIS)**

The Busia County has not begun using the Procure to pay module in the IFMIS for their operations. It was established that all payments were being re done manually. The reasons given to us for them not using IFMIS were;

- Lack of adequate training for the users
- The ICT staff have not been trained at all for them to offer the support
- Poor connectivity
- Lack of support and effective communication between the County and the IFMIS department. For instance, the IFMIS system administrators changed the IP Address configurations for the County and they did not communicate the change to the County system operators to effect the change. The system disconnected from that time and due to lack of support, they resulted to use of manual system for their operations.

The interim ICT manager hoped to begin operations using IFMIS on 1 October, 2013.

#### **a. Anti-virus software**

The County received Kerspaskey anti-virus software that could not update after the initial installation

#### **b. Training of County Staff**

The County staff – IFMIS users have been trained on IFMIS at the Kenya School of Government but in the course of our interviews, it was indicated that they needed more training for them to be able to use the system effectively.

### **c. Connectivity**

IFMIS department provided seventeen (17) orange MODEMS to facilitate connectivity to the central IFMIS server; however; signal for the orange (which is the internet provider) was weak in the County for the short period they tried to use IFMIS. The IFMIS department had not installed a network enhancer to boost the fragile signals.

### **d) Support Team/ Help Desk**

The County staffs using IFMIS have access to the Helpdesk at the IFMIS center. However, from our interviews with the users, the support offered was not adequate and they hardly get feedback to their issues. There is no formal procedure of reporting and documenting incidences and queries requiring support.

## **3.5 Local Authority Integrated Financial Operations Management System (LAIFOMS)**

LAIFOMS had only been in 3 Sub - Counties: Municipal Council of Busia, County Council of Busia, and Malaba Town Council. The Receipting Module is the only active module. The Expenditure Module was automatically disabled from 30 June, 2013 and therefore beginning 1 July 2013 the budget was prepared through IFMIS.

The access to LAIFOMs at the Busia County Council was denied and data could not be extracted. The officer holding the rights to system administration was said to have been deployed to another County but has not yet handed over the rights to the Busia County's administration.

An analysis of the data extracted from the system of two Sub-Counties revealed that officers of the County were not fully utilizing the Receipting Module where all monies received should be banked and the corresponding banking slips details posted in the system.

A review of the system at the County Council of Busia revealed the following:

- There was an under banking of Kshs.8,275,284 for the period 1 July to 3 march 2013 and Kshs.13,681,581 for the period,4 March to 17 Sept 2013.
- There was a significant decline in revenue collection from; Kshs.38.8m collected from 2 January to 4 March 2013 to Kshs.2.3m collected from 5 March, 2013 to 5 May, 2013.

The County management should take control of the management of LAIFOMS previously installed in the Local Authorities so as to ensure that revenue collected is accounted for.

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 G-PAY**

The County had received two computers from The National Treasury which are dedicated for G-Pay. Training for G-Pay had been undertaken for five (5) officers. All payments in the County were being made through G-PAY.

### **3.7 Integrated Payroll and Personnel Database (IPPD)**

The County has fully installed the IPPD system and the payroll beginning July 2013 was processed using the system. There are six (6) users who have been trained on the use of the system. However, the data that was migrated into IPPD from LAIFOMS had the following integrity issues:

- There were forty-one (41) officers with Incorrect Tax Personal Identification Numbers.
- There were eight (8) officers whose date of hiring was blank.
- The IPPD system could not process all the required queries as per user request.
- A head count of the County staff should be done.
- The County should carry out a data clean-up of its human resource data to ensure the integrity of the payroll data.
- The query function in the IPPD should be enabled to serve the counter users adequately.

### **3.8 IT Control Environment**

#### **3.8.1 Staffing and Segregation of duties**

The IT section had nine (9) personnel but there were no defined roles and responsibilities on how to oversee the IT operations. The staff had relevant knowledge and skills on IT field but they had not been trained on the application in place i.e. On LAIFOMS, IPPD and IFMIS for them to be able to offer adequate support to the system users.

ICT staffs in the County were not involved in the implementation of the systems in place.

Inadequate staffing, training on specific applications and undefined roles and responsibilities in the IT Department may lead to inadequate user support that is required to oversee the operations of IT systems at the County.

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.

The ICT staff should also be trained in all the system applications in place for them to offer adequate support.

### **3.8.2 Management of IT Operations**

The County has an Executive Member who will solely be in charge of Planning and development, Communication and ICT. This indicates that the County views ICT as a strategic resource which will enable the County to achieve its objectives effectively and efficiently

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 assets register, Business Continuity Policies (BCP) and Disaster Recovery Plans (DRP). There was also no ICT Steering Committee in place and the ICT policies and procedures in place had not been approved.

- Effective and responsible ICT Decision Making process.
- Effective management of ICT risks.
- ICT Resource Management - attracting and retaining suitably skilled and qualified ICT staff.
- Delivery of ICT services that are cost efficient and provide value for money.
- Responsible management of ICT budgets and resources.

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.

The County should ensure that a properly constituted IT Steering Committee is in place.

### **3.8.3 Physical Controls**

There was no server room and the LAIFOM's servers are located in the ICT office where accessibility is not restricted to only authorized staff.

Physical access controls to the server room need to be reinforced. The servers should be placed on a raised floor.

### **Conclusion**

The foregoing observations clearly indicate that the process of taking over the assets and liabilities, including staff of the former councils was not properly handled due to lack of leadership 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 Public Financial Act 2012.



**Edward R.O. Ouko, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**3 March 2014**