

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

REPORT

OF

THE AUDITOR–GENERAL

ON THE

FINANCIAL OPERATIONS

OF

THE COUNTY GOVERNMENT OF
LAMU AND ITS DEFUNCT
LOCAL AUTHORITIES

FOR THE PERIOD
1 JANUARY TO 30 JUNE 2013

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

EXECUTIVE SUMMARY

1.1 Introduction

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 The County Government Act, 2012 Section 134 (1) repealed the Local Government Act, Cap 265, and thus effectively dissolving all the 175 Local Authorities and creating 47 County Governments.

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

1.2 Audit Objectives

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

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

1.3 The audit teams faced several constraints during the audits, including delay in getting various documents and non-availability of key staff of the former Local Authorities. These constraints resulted in delay in concluding the audits within the planned timelines.

2.0 Key Audit Findings

2.1 County Executive and County Assembly

2.1.1 Failure to take over the Defunct County Council of Lamu

Although the County Government of Lamu had taken over the assets and liabilities of the former County Council of Lamu as per handing over report letter reference CCL/ADM/VOL./51 dated 17 March 2013, the takeover does not appear to have been carried out in an organized manner. This is because certain records regarding property title deeds and motor vehicles logbooks were not made available. The Council did not also provide bank reconciliations for bank accounts handed over to the County Government. Consequently, the completeness and accuracy of balances and accounts handed over to the County Government could not be confirmed.

The Transition Authority should therefore conduct a proper handing-over of the Council's books, records and properties.

2.1.2 Current assets and liabilities

i) Cash and Bank Balances

All bank accounts operated by the defunct local authority were to be closed by 28 February 2013 and the funds were to be transferred to the County Revenue Fund Account.

It had been indicated that funds from the defunct Lamu County Council bank accounts were transferred to the newly opened County Government LATF Account No.011422303341 on 26 June 2013. However, no documented confirmation has been produced to support this.

Further, the balance of Kshs.103,997,807 as at 30 June 2013 does not include cash on hand balance of Kshs.745,465 and therefore the correct balance should be Kshs.104,743,271. In addition, no bank reconciliation statements have been made available for audit review. Consequently, the accuracy and validity of cash and bank balance of Kshs.103,997,807 could not therefore be confirmed.

The County executive should prepare monthly bank reconciliations for all bank accounts to ascertain the correct balances as at 28 February 2013.

ii) Debtors

The County Government did not maintain a proper and up to date trade and other receivables ledger to ensure that the balances are recorded at correct amounts and reconciled regularly. Documents made available at the time of audit (handing-over report letter reference CCL/ADM/VOL./51 dated 17 March 2013) indicated that the trade and other receivables balance amounted to Kshs.86,488,613 for which no records were available to confirm these balances. Records should be maintained to confirm the balance of Kshs.86,488,613. Proper handing-over should be done.

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 when they fall due.

iii) Creditors

A review of the handing over report and the creditors schedule for the period ended 30 June 2013 indicated that creditors balance increased by Kshs.1,258,523 between 28 February 2013 and 30 June 2013 as per handing over report. The creditors balance could however not be supported with a creditors ledger, individual creditors' list and other supporting documents like invoices and supported Local Purchase Orders and Local Service Orders. Consequently the validity completeness and accuracy could not be ascertained.

Appropriate creditors records should be maintained to include particulars of each creditor. Also, no creditor should be settled before validation of the balances.

2.1.3 Accounting for Stores

Some items procured and delivered to the County during the period under review were not recorded in the stores bin cards. Based on sample selected of payment vouchers, the following observations were made;

- A payment of Kshs.10,000 dated 24 April 2013 was made through cash being cost of 90.9 litres of diesel for GK A227 to the Council. However, the work ticket was not produced for audit verification.
- Payment of Kshs.69,991.79 dated 24 June 2013 was made through cash for supply of 593 litres of petrol. However, the transaction was not entered in the work ticket.
- Payment of Kshs.15,000 dated 19 June 2013 was made through cash for office general supplies. However, the items supplied were not taken on charge in the stores ledger.

The procurement section should ensure that the stores section is properly manned. All fuel paid for should be entered in the work tickets for controlled usage. This expenditure should be accounted for.

2.1.4 Unauthorized Expenditures

In the period under review, expenditure amounting to Kshs.1,129,900 had been incurred by the Lamu County Government in form of payments to officers as reimbursements for travelling outside station while on official duties, per diem allowances and hospitality services and for other general office expenses and services. The payment vouchers were not properly authorized and approved by designated officers at the County Treasury. They were not audited by the internal

audit and they were not well supported. In some cases, the payment schedules for allowances received and attached to the payment voucher were not signed by the recipients of these allowances.

Some payments totaling Kshs.181,620 were observed to have been made to several companies for offering goods and services in cash instead of cheque payments without any proper explanation.

In the period under review, expenditure amounting to Kshs.21,046,144 had been incurred by the Lamu County Government in form of salaries, per diem allowances, hospitality services and other general office expenses. However these balances were not supported by a listing of payees who were paid these amounts and therefore the propriety of this expenditure could not be confirmed. The County Government should make available records to support this expenditure.

In the period under review, expenditure amounting to Kshs.2,992,464 which comprised mileage reimbursement of Kshs.1,192,464 and deposit rent of Kshs.1,800,000 had been incurred by the Lamu County Government. A review of the payment vouchers revealed that the payment vouchers were not supported with documentary evidence and approval by appropriate designated officers. The mileage claims were based on an email message from Automobile Association Kenya confirming Kshs.118.30 per kilometer on 5,040 Kilometers done. No authority was made available to confirm payment of mileage as part of remuneration or employment benefit. The authenticity of this expenditure could not be confirmed.

An amount of Kshs.900,000.00 was paid out as deposit and rent for the Governor's House for three months between March and June 2013. It is not clear how the procurement was done as no documentary evidence was availed for audit review.

Payments made for refreshments and meals by guests during official County functions were neither supported by invitation letters, attendance registers nor the beneficiaries disclosed.

An amount of Kshs.65,000.00 was paid to an officer for the purchase of a galaxy tab computer for use in the office. However, the purchase has not been recorded in stores records as no S13 has been raised. Further, the source of funds has also not been disclosed as no imprest appears to have been applied for and the payment voucher appears not to have been approved and authorized by appropriate officers.

Also, an amount of Kshs.248,800.00 was paid out as payment for travelling and accommodation for a retreat in Mombasa for the County Assembly's Committee on appointment. However, the signed payment schedules by the recipients of these allowances and proof that the undisclosed officers attended the retreat has not been produced for audit review.

All the payment vouchers should be properly approved, examined, signed by the designated officers and supported. The County Government should ensure all procurements and payments adhere to procurement laws and financial regulations in

place. Remuneration and allowances to County Government staff should always be based on the Salaries and Remuneration Commission's guidelines.

2.1.5 Non-current assets

A review of the fixed assets schedule produced by the County Government as at the time of audit indicated that the assets balance amounted to Kshs.52,392,451 as at 30 June 2013, resulting to an increase of Kshs.20,550,386 from the initial balance of Kshs.31,846,065 as indicated in the handing-over report dated 28 February 2013.

There was no documentary evidence produced to confirm the increase in the value of assets. Further, there were no records produced to indicate that additional assets were acquired by the County Government after taking over from the defunct County Council.

The County Government should prepare and maintain proper and up to date fixed assets register, assets inventory, assets schedules and acquire ownership documents. Assets should be accurately recorded at their fair values and owned.

2.1.6 Inauguration Celebration Expenses

The County Government received Kshs.2,090,000 in the month of March 2013 through the County Commissioner. The amount was to be spent towards the inauguration celebration of the County Governor. The County Infrastructure Committee had budgeted for Kshs.980,000 towards the celebration which was to be held on 27 March 2013.

The County Infrastructure Committee in their budget had allocated Kshs.300,000 to cater for lunches for 600 invited guests who comprised of 150 VIP guests and 450 other guests including security personnel. Perusal of the payment voucher and other related documents produced revealed a total of Kshs.997,210 was expensed for the celebration. There was no authority produced for the over expenditure amounting to Kshs.697,210.

It was further observed that a total of 1,700 guests were provided with lunches during the celebration as indicated in the payment vouchers produced for audit. It was, however, not possible to ascertain the identity of the extra 1,100 guests and who invited them to the occasion.

The swearing in programme stated that all guests were to arrive and register between 9.00am to 9.30am. However, no such record was available to ascertain the number of guests who attended, and therefore it was not possible to confirm the accuracy of the expenditure.

Quotations, local purchase orders or local service orders, instruction to traders and service providers to prepare and provide lunches for the celebration were not produced for audit verification. It was not possible to establish how the providers of

the lunches were procured and whether the provisions of public procurement were adhered to.

A total of Kshs.850,000 was paid in cash for provision of lunch to a supplier for provision of lunch to unidentified persons. It was however not possible to confirm the accuracy of the payment as the list of persons to whom lunch was provided was not attached, the cash sale receipts were hand written and had no machine generated ETR receipts for tax purposes. No local service order was raised as required and the supplier was not pre-qualified. The payees name on the voucher was changed to read District Commissioner from Labanda Restaurant. The payment voucher was not pre audited.

The amount received for the celebration was Kshs.2,090,000 against a budget of Kshs.980,000 and it has not been explained with supporting evidence how the amount has been accounted for. The propriety of inauguration celebrations expenditure of Kshs.2,090,000 could not be confirmed.

The County Government should account for all the above mentioned funds by providing proper explanation with supporting documentary evidence.

2.1.7 Unrecorded and Outstanding Imprest

A review of the imprest register revealed that several officers were holding more than two imprests at a time and had remained outstanding at the time of audit .Officers at the County Government of Lamu were holding imprest amounting to Kshs.631,570 which comprised of Kshs.265,700 as at 30 June 2013 and Kshs.366,270 as at 31 July 2013. Further, Imprests records made available for audit revealed that imprest amounting to Kshs.2,461,889 had not been recorded in the register. The imprest register was not regularly updated and the four copies of warrants were all left in the imprest warrant book. In the absence of proper records, it has not been possible to confirm the total amount held by the staff of the County Government in form of imprests. Imprest warrants should be authorized after all previous imprests have been surrendered and accounted for. The County Executive should ensure imprests are surrendered immediately after officers' return to their duty station, failure to which all outstanding amounts must be recovered in their salaries. Imprest warrants should be authorized after all previous imprests have been surrendered and accounted for.

3.0 Defunct County Council of Lamu

3.1. Improper Handing Over to Transition Authority/County Government

There was no proper handing over of the former County Council of Lamu assets and liabilities to the Transition Authority as required by the Ministry of Local Government Circular No. MLG/1333/TY/52 of 18 February, 2013. As a result, the County Government's records of assets and liabilities owned by the former County Council are incomplete and unreliable.

Arrangements should be made by the Transition Authority to have the assets and liabilities of the defunct County Council of Lamu officially handed over to the County Government.

3.1.1 Current assets and liabilities

i) Cash and Bank Balances

All bank accounts operated by the defunct local authorities were to be closed by 28 February 2013 and the funds were to be transferred to the County Revenue Fund. Information available indicates that the bank accounts were closed and the balance totaling Kshs.6,255,378.00 transferred to the newly opened County Government LATF account number 01142230341 on 26 June 2013. No documentary evidence has been availed to confirm this.

All bank accounts of the defunct County Council of Lamu should immediately be closed and balances transferred to the County Revenue Fund account.

ii) Debtors

The Council did not maintain a proper and up to date trade and creditors ledgers to ensure that the balances are recorded and reconciled regularly. Documents made available at the time of audit indicated that the trade and other receivables balance amounted to Kshs.86,488,613.00. However, no relevant supporting documents were made available for audit review.

Records should be availed to confirm the balance of Kshs.86,488,613 and proper handing over done.

iii) Creditors

A review of the handing over report and the financial statements for the year ended 30 June 2012 indicated that a settlement of Kshs.27,519,161 was made to various classes of creditors as at 28 February 2013. The settlement of Kshs.27,519,161 done to various classes of creditors between 1 July 2012 and 28 February 2013 was not supported by verifiable documents and it was therefore not possible to ascertain the accuracy, eligibility and propriety of the settlement. The balance of Kshs.368,818 indicated in the handing over report could not be confirmed.

Effort should be made to have proper and updated creditors' records and the correct balance handed over to the County Government. The Management of the defunct County Council should be compelled to produce details of how the creditors amounting to Kshs.27,519,161 accrued and account for the settlements made thereof.

3.1.2 Poor Maintenance of Project Records

Examination of project files and other related records revealed that contract agreements, minutes of the tender opening, technical and financial evaluation reports, letters of awards and progress reports were missing from the project files. Certificates of work done did not clearly state quantity of work done and how much the Council had incurred or paid. The certificates were only attached to the payment vouchers for payment purposes. Certificates of work done and site meeting minutes were not in the project files. The project files did not contain the contractor's company profiles and the bills of quantities for ease of reference.

No explanation has been provided for the failure of the projects to maintain supporting documents. It was, therefore, not possible to confirm how the Council identified and engaged the contractors for these projects. Further, the completion dates of these projects could not be determined. In addition, LASDAP reports through which various consultative meeting were held with the community to identify projects were not produced for audit and it appears they were lacking. The accountability and propriety of these projects expenditure could therefore not be confirmed.

The County executive should ensure that expenditures incurred on projects and any other procurement is in future fully supported with relevant documentary evidence.

3.1.3 Procurement of Goods and Services

i) Construction of Sendemke Water Project Two (2) Kilometer Water Piping

A contractor was contracted to lay out a two (2) kilometer water pipe at Sendemke in Witu ward at a cost of Kshs.1,988,513. It was, however, observed that the Council did not have an engineer's estimate for the proposed works which could have been used as a basis for evaluating the contract and no expert from the Ministry of Water was engaged for professional guidance. The Management of the defunct County Council should make a detailed disclosure of how the project cost was arrived at, certified and handed over to the community.

ii) Fencing of Mokowe Market

Fencing of Mokowe Market was awarded to a contractor in the financial year 2011/2012 at a contract sum of Kshs.1,230,000 against a budgetary allocation of Kshs.1,000,000 as indicated in the project status report availed for audit. It was further observed that a total of Kshs.971,700 had been paid towards the project as at the close of the 2011/2012 financial year.

The contractor was overpaid by a total of Kshs.344,025 for 278 poles not erected at site and 278 holes not excavated whose values are Kshs.298,850 and Kshs.45,175 respectively. It was further, observed that the building inspector through an internal memo to the Clerk requested for extra payments valued at Kshs.587,000 for clearing

bush of shrubs, manual excavation and placing of poles. The Council through cheque number 001800 dated 04 July 2012 made payments in favor of the contractor amounting to Kshs.510,690 for the works. The accountability and propriety of these projects expenditure as detailed could therefore not be confirmed.

The County executive should ensure that Projects, works and services are fully supported with Local Service Orders (LSO's), Bills of Quantities documents, project files, and contractors' invoices, completion certificates from Technical Departments and Inspection and Acceptance Committee reports. The Management of the defunct County Council should also make a detailed disclosure on the source of unbudgeted funds used to pay for the project.

3.1.4 LATF

During the 2012/2013 financial year, the Council in its approved budget estimated to receive a total of kshs.58,266,608 from the Central Government in form of LATF disbursements. Out of the disbursements, Kshs.35,403,359 was to be spent on service delivery account and Kshs.23,400,155 on community based and capital projects. However, the Council received an amount of kshs.48,943,948 in two tranches of kshs.26,219,972 on 9 November 2012 and Kshs.22,723,976 on 22 February 2013 respectively. The LATF account balance as at 28 February 2013 was Kshs.22,265,308.21 whereas as at 30 June 2013, the balance was Kshs.5,284,644.61. However, no reconciliation has been made available to confirm the movement of cash from this account. Further, projects undertaken and confirmed during the period under review amounted to Kshs.4,782,816. It was therefore not possible to confirm whether the LATF were properly used.

The management of the defunct County Council should make a detailed explanation with supporting documentary evidence to account for the funds disbursed to the former Council.

3.1.5 Verification of Projects

During audit the following projects were visited and their status is as indicated below.

Name of Project	Location	Approved Budget	Payments Made	Status
Fencing of Mokowe Market	Mokowe	0	510,690	2011/2012 project incomplete
Council toilet/office at Mpeketoni	Mpeketoni	2,000,000	450,000	Stalled
Perimeter wall at Twaifu Stadium	Lamu Island	2,100,000	465,450	Stalled

The defunct Council has not explained when the projects will be completed.

3.1.6 Imprest-Kshs.1,800,222

It was observed that the defunct Council did not maintain an imprest register and warrants book to record the imprests issued and confirm their authorization. An amount of Kshs.1,800,122 issued as imprests was surrendered using petty cash vouchers which were not supported by receipts for expenditure incurred and travel documents such as bus and air tickets as proof of travel. The authenticity of these imprests could therefore not be confirmed.

Imprests should not be treated as loans or personal advances and where one has failed to account for an imprest on due date recovery should be made from his salary. All temporary imprest should be surrendered or accounted for within 48 hours following return from official journey. Imprest should be issued and accounted for in accordance with regulations in force time to time.

3.1.7 Irregular Expenditure

i) Staff Salary Arrears-Kshs.1,466,311

The defunct Council paid a total of Kshs.1,466,311 to retired staff being unpaid staff salary arrears. There was no list of staff, whose arrears had accumulated, produced for audit verification and the payment was made in cash casting doubt as to the actual receipt of cash by the intended beneficiaries.

ii) Lunches-Kshs.325,000

Kshs.325,000 was paid to 21 Council staff indicated as being cost of lunches while visiting Mokowe, Hindi and Baragoi to inspect issuance of part development plan to squatters for 15 days at the rate of Kshs.1,000 each. The payment was not recorded in the personal ledgers and remained unaccounted for as at the time of audit.

iii) Demolition-Kshs.560,000

Kshs.560,000 was paid Council by staff being cost of bush clearing and demolition of identified illegal structures at Hindi, Magogoni and Mokowe settlement schemes. The work plan and cost estimate for the work was not produced for verification. Criteria used in selecting the staff and their ability to undertake the work was not produced. The payment was not accounted for as at the time of audit.

iv) Baggage Allowance-Kshs.160,000

Baggage allowance of Kshs.160,000 was paid to council staff being cost of transportation of personal belongings from Kajiado to Lamu. It was, however, observed that the amount was paid in cash to the staff and there was no documentary evidence to indicate how the transport firm was identified for the service and whether the baggage was actually transported.

v) Expenditure-Kshs.3,995,971.15

An amount totaling Kshs.3,995,971.15 was paid to various merchants during the period under review. It was, however, observed that in the absence of a list of pre-qualified suppliers, it could not be ascertained how the merchants were identified and awarded supply of goods and services. The payments were made in cash and it could not be confirmed whether the cash was received by the merchants for goods and services rendered.

These irregularly paid amounts should be fully investigated and recovery of amounts expended made from responsible staff members.

3.1.8 Information Systems Assessment

i) Hardware

The County had received nineteen (19) computers, nineteen (19) special orange CDMA modems and one scanner from The National Treasury (IFMIS Department) which will be solely used for IFMIS. The County should use the hardware for proper functioning of IFMIS.

ii) Integrated Financial Management Information System (IFMIS) and G-Pay

IFMIS has been installed in the County with the plan to budget module operational. Due to poor connectivity, the Accounts payable module cannot be reliably used to process payments.

The County had received one computer from The National Treasury which is dedicated for G-Pay. However, the system is not in use because IFMIS accounts payable is not operational. The IFMIS accounts payable module should be operational.

iii) Local Authority Integrated Financial Operations Management System (LAIFOMS)

LAIFOMS was recently installed and no staff has been trained on how to use the system for revenue collection. The revenue collection process is done manually. Training should be done on the use of the system for optimal results.

iv) Integrated Payroll and Personnel Database (IPPD)

The County has fully installed the IPPD system and began processing the County payroll from July 2013. At the time of audit, the only payroll manager was away on training and therefore no data could be extracted for interrogation. The payroll should continue to be processed using the IPPD system as required.

v) ICT Governance and IT Control Environment

The IT section has two staff that are required to offer all ICT support to the County Government office.

The County has two sub-counties, Lamu East and Lamu West. The former does not have power supply which might delay implementation of ICT systems. Power supply should be installed for implementation of ICT systems.

3.1.9 Conclusion

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

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



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

13 March, 2014

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

4.0 MAIN REPORT

4.1 Introduction

The County Government of Lamu replaced the defunct County Council of Lamu. It was established after the 4 March 2013 elections to carry out the devolved functions set out in the Constitution of Kenya.

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

4.2 Terms of Reference

The Office of the Auditor-General is an independent office mandated by Article 229 of the Constitution of Kenya to audit the accounts of the National and County Governments. In this regard, the Office planned an audit for the County Governments of Lamu with the following terms of reference:

- a) Verification of cash and bank balances held at various accounts in the defunct local authorities during the period of transition between 5 March and 30 June 2013;
- b) Examination of transactions of defunct local authorities between 1 January 2013 to 30 June 2013;
- c) Examination of transactions of the County Government and County Assembly between 5 March and 30 June 2013;
- d) Check the closure of bank accounts as directed by the Transitional Authority;
- e) Check Proper procurement procedures as per Public Procurement and Disposal Act 2005 and related 2006 Regulations;
- f) Check current debtors and suppliers balances;
- g) Operation of IFMIS and G-Pay;
- h) Motor vehicles and equipment;
- i) Confirm whether County Bank Accounts were opened on 4 March 2013;
- j) IPPD Payrolls – Ghost workers in payroll; and
- k) Irregular borrowings, overdrafts and payment of non-existing loans.

The audit was conducted in the month of August and September, 2013

4.3 Methodology

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

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

5.0 DETAILED FINDINGS

5.1 County Executive

5.1.1 Failure to take over the Defunct County Council of Lamu

Although the County Government of Lamu had taken over the assets and liabilities of the former County Council of Lamu as per handing over report letter reference CCL/ADM/VOL./51 dated 17 March 2013. The takeover does not appear to have been carried out in an organized manner. This is because certain records regarding property title deeds and motor vehicles logbooks were not made available. The Council did not also provide bank reconciliations for bank accounts handed over to the County Government. Consequently, the completeness and accuracy of balances and accounts handed over to the County Government could not be confirmed.

The Transition Authority should therefore conduct a proper handing-over of the Councils books, records and properties.

5.1.2 Non- Current Assets

A review of the fixed assets schedule produced by the County Government as at the time of audit indicated that the assets balance amounted to Kshs.52,392,451 as at 30 June 2013; resulting to an increase of Kshs.20,550,386 from the initial balance of Kshs.31,846,065 as indicated in the handing over report dated 28 February 2013.

There was no documentary evidence produced to confirm the increase in the value of assets. Further, there were no records produced to indicate that additional assets

were acquired by the County Government after taking over from the defunct County Council.

In view of the reservations made, it was not possible to confirm the accuracy of assets balance of Kshs.31,842,065 attached to assets as at 28 February 2013 and Kshs.52,392,451 as at 30 June 2013 and whether the assets are actually owned by the County Government.

Recommendation

The County should ensure that ownership documents for all the assets are acquired, assets register is maintained and updated, all assets are labeled for ease of identification and correct values are stated. The increase in value should be explained with supporting documentary evidence.

5.1.3 Debtors

Documents made available at the time of audit (handing over report letter CCL/ADM/VOL./51 dated 17 March 2013) indicated that the trade and other receivables balance amounted to Kshs.86,488,613. This included CILOR Kshs.49,867,350.00, Property Rates Kshs.35,973,463.00 and Market stall Rentals Kshs.647,800.00. However, the figures as stated in the handing over report were not casted correctly.

Further, no supporting documents have been made available to confirm these balances and therefore the correctness, accuracy, validity and full recoverability of trade and other receivables could not be ascertained.

Recommendation

The Council should collect the outstanding balances and provide relevant supporting documents to confirm the receivables balance. A debt collection policy should be put in place to facilitate collection of County debts.

5.1.4 Unrecorded and Outstanding Imprest

A review of the imprest register revealed that several officers were holding more than two imprests at a time and had remained outstanding at the time of audit. Officers at the County Government of Lamu were holding imprest amounting to Kshs.631,570 which comprised of Kshs.265,700 as at 30 June 2013 and Kshs.366,270 as at 31 July 2013. Further, imprests records made available for audit revealed that imprest amounting to Kshs.2,461,889 had not been recorded in the register. The imprest register was not regularly updated and the four copies of the warrants were all left in the imprest warrant book. In the absence of proper records, it has not been possible to confirm the total amount held by the staff of the County Government inform of imprests.

Recommendation

Imprest warrants should be authorized after all previous imprests have been surrendered and accounted for. The County Government should develop an appropriate system for recording imprest to ensure accuracy of the records and have outstanding balances settled or recovered from the officers' salaries.

5.1.5 Cash and Bank balance

A review of cash and bank records produced for audit indicated that the County Government opened and operates four bank accounts held at the Kenya Commercial Bank- Lamu. The bank accounts are as indicated below.

- a) Lamu County Government revenue account number 01140750615.
- b) Lamu County Government operation account number 01140768913.
- c) Lamu County Government standing imprest account number 01140745603.
- d) Lamu County Government LATF account number 01142230341.

A scrutiny of the records made available indicated that only two bank accounts were active up to the end of the financial year with the following balances.

Name of Account	Account Number	Amount (Kshs)
Revenue Account	01140750615	10,818,114.20
Standing Imprest Account	01140745603	93,179,692.80
Total		103,997,807.00

It had been indicated that funds from the defunct Lamu County Council bank accounts were transferred to the newly opened County Government LATF Account number 011422303341 on 26 June 2013. However, no documented confirmation has been produced to support this. Also, the exact date when the four bank accounts were opened and became operational has not been disclosed.

Further, the balance of Kshs.103,997,807 as at 30 June 2013 does not include cash on hand balance of Kshs.745,465 and therefore the correct balance should be Kshs.104,743,271. In addition, no bank reconciliation statements have been made available for audit review. Consequently, the accuracy and validity of cash and bank balance of Kshs.103,997,807 could not be confirmed.

Recommendation

The County Government should prepare monthly bank reconciliations for all accounts to ascertain the correct balances as at 28 February 2013.

5.1.6 Creditors and Payables

A review of the handing over report and the creditors schedule for the period ended 30 June 2013 indicated that creditors balance increased by Kshs.1,258,523 between

28 February 2013 as per handing over report and creditors schedule produced for audit. The table below illustrates the changes.

Class of Creditor	Creditors schedule 30.06.2013 Amount (Kshs.)	Handing over report Amount (Kshs.)	Settlement made (Kshs.)
Staff and councillors	9,704,427	8,445,904	1,258,523
Deposits	1,100,000	1,100,000	0
Total	10,804,427	9,545,904	1,258,523

However, there was no creditor's ledger, unpaid invoices, fee notes individual creditors balance, and completion certificates, and other supporting documents done to represent these balances.

A salary arrears register was not maintained to keep track of the salary arrears of staff which were being paid in installments and it was therefore not possible to confirm the accuracy of the individual staff arrears balances. In the absence of relevant support documents it was not possible to confirm that the creditors balance as indicated in the schedules produced was fairly stated.

Recommendation

Effort should be made to prepare proper and updated creditors records. All creditors' or payables should be recorded and accurately stated in the creditor's ledger by 28 February 2013 and the balances are regularly reconciled to the creditors' statements. Creditor's circularization should be carried out to confirm the ledger balances.

5.1.7 Unsupported Expenditures

During the period under review, expenditure amounting to Kshs.21,046,144 had been incurred by the Lamu County Government in form of salaries, per diem allowances, hospitality services and other general office expenses. The breakdown of this expenditure is as below.

Details (Expenditure Head)	Amount (Kshs.)
Basic Salary	11,378,850
Domestic Travelling and Subsistence	4,382,507
Hospitality Supplies and Services	426,305
Refurbishment of Buildings	77,848
Electricity	17,770
Water and Sewerage	22,960
Communication supplies services	260,435
Domestic Travelling and subsistence	407,431
Printing, Advertising and Information	322,995
Hospitality supplies and services	167,265
Fuel and Lubricant	221,620
Routine Maintenance of motor vehicle	715,788

Routine Maintenance Other Assets	7,655
Purchase of furniture and Equipment	157,515
Donation and Disaster	679,200
Office Rent	1,800,000
Total	21,046,144

However, these balances were not supported by a listing of payees who were paid these amounts and therefore the propriety of this expenditure could not be confirmed.

Recommendation

The County Government should make available records to support this expenditure.

5.1.8 Unauthorized Expenditure

During the period under review, expenditure amounting to Kshs.1,129,900 had been incurred by the Lamu County Government in form of payments to officers as reimbursements for travelling outside station while on official duties, per diem allowances and hospitality services and for other general office expenses and services. The payment vouchers to support the expenditure were not properly authorized and approved by appropriate designated officers. The payment schedules were also not signed by the recipients of the allowances.

Some payments totalling Kshs.181,620 were observed to have been made to several suppliers in cash instead of cheque payments without any explanations.

Expenditure amounting to Kshs.2,992,464 which comprised mileage reimbursement of Kshs.1,192,464 and deposit and rent of Kshs.1,800,000 had been incurred by the Lamu County Government. A review of the payment vouchers revealed that the payment's vouchers were not properly supported and approved by appropriate designated officers and audited by the internal audit as well. The mileage claims were based on an email message from Automobile Association of Kenya for 5040 kilometers at Kshs.118.30. No authority was made available to confirm payment of mileage as part of remuneration or employment benefit. The authenticity of this expenditure could not be confirmed.

An amount of Kshs.900,000 was paid out as deposit and rent for Governor's house for three months between March and June 2013. It is not clear how the procurement was done as no documentary evidence was availed for audit review.

Payments made for refreshments and meals by guests during official County functions were neither supported by invitation letters, attendance registers nor the beneficiaries disclosed.

An amount of Kshs.65,000 was paid to an officer for the purchase of a galaxy tab computer for use in the office. However, the purchase has not been recorded in stores records as no S13 has been raised. Further, the source of funds has also not

been disclosed as no imprest appears to have been applied for and the payment voucher appears not to have been approved and authorized by appropriate officers.

An amount of Kshs.248,800 was paid out as payment for travelling and accommodation for a retreat in Mombasa for the County Assembly's Committee on Appointment. However, the signed payment schedules by the recipients of these allowances and proof that the undisclosed officers attended the retreat has not been produced for audit review.

Recommendation

All the payment vouchers should be properly approved, examined, signed by the designated officers and supported.

The County Government should adhere to procurement laws and its regulations. Remuneration and allowances to County Government staff should always be based on the salaries and remuneration commission's guidelines. Proper explanation should be made to verify propriety of this expenditure.

5.1.9 Accounting for Stores

Some items procured and delivered to the County during the period under review were not recorded in the stores bin cards. Based on sample selected of payment vouchers, the following observations were made;

- A payment of Kshs.10,000 dated 24 April 2013 was made through cash being cost of 90.9 litres of diesel for GK A227 to the Council. However, the work ticket was not produced for audit verification.
- Payment of Kshs.69,991.79 dated 24 June 2013 was made through cash for supply of 593 litres of petrol. However, the transaction was not entered in the work ticket.
- Payment of Kshs.15,000 dated 19 June 2013 was made through cash for office general supplies. However, the items supplied were not taken on charge in the stores ledger.

Recommendation

The procurement section should ensure that the stores section is properly manned. All fuel paid for should be entered in the work tickets for controlled usage. This expenditure should be accounted for.

The County Government should maintain proper stores records and ensure that all items procured are taken on charge in the stores ledgers. All fuel paid for should be recorded in the work tickets for controlled usage. Motor vehicle spare parts purchased or replaced should be clearly indicated in the work tickets and safely kept in the stores for verification purposes. Items issued to various users should also be recorded and balances reconciled regularly.

5.1.10 Inauguration Celebration Expenses

The County Government received Kshs.2,090,000 in the month of March 2013 through the County Commissioner. The amount was to be spent toward the inauguration celebration of the County Governor. The County infrastructure committee had budgeted for Kshs.980,000 towards the celebration which was to be held on 27 March 2013.

Analysis of the budgeted amount and the actual expenditure revealed the following:

- (i) The County infrastructure committee in their budget had allocated Kshs.300,000 to cater for lunches for 600 invited guests who comprised of 150 VIP guests and 450 other guests including security personnel. Perusal of the payment vouchers and other related documents produced revealed a total of Kshs.997,210 was expensed for the celebration. There was no authority produced for the over expenditure amounting to Kshs.697,210.
- (ii) It was further observed that a total of 1,700 guests were provided with lunches during the celebration as indicated in the payment vouchers produced for audit. It was however not possible to ascertain the identity of the extra 1,100 guests and who invited them to the occasion.
- (iii) The swearing in programme stated that all guest were to arrive and register between 9.00am to 9.30am. However, no such record was availed to ascertain the number of guests who attended, and therefore it was not possible to confirm the accuracy of the expenditure.
- (iv) Quotations, local purchase orders or local service orders, instruction to traders and service providers to prepare and provide lunches for the celebration were not produced for audit verification. It was not possible to establish how the providers of the lunches were procured and whether the provisions of public procurement were adhered to.
- (v) A total of Kshs.850,000 was paid in cash to a supplier for provision of lunch to unidentified persons. It was however not possible to confirm the accuracy of the payment as the list of persons to whom lunch was provided was not attached, the cash sale receipts were hand written and had no machine generated ETR receipts for tax purposes. No local service order was raised as required and the supplier was not pre-qualified. The payees name on the voucher was changed to read district commissioner. The payment voucher was not pre audited.
- (vi) The amount received for the celebration was Kshs.2,090,000 against a budget of Kshs.980,000 and it has not been explained with supporting evidence how the amount has been accounted for. The propriety of inauguration celebrations expenditure of Kshs.2,090,000 could not be confirmed.

Recommendation

The County Government should account for the funds and provide proper explanation with supporting evidence.

5.3 Defunct County Council of Lamu

5.3.1 Improper Handing Over to Transition Authority/County Government

There was no proper handing over of the former County Council of Lamu assets and liabilities to the Transition Authority as required by the Ministry of Local Government Circular No. MLG/1333/TY/52 of 18 February, 2013. As a result, the County Government's records of assets and liabilities owned by the former County Council are incomplete and unreliable.

Recommendation

Arrangements should be made by the Transition Authority to have the assets and liabilities of the defunct County Council of Lamu officially handed over to the County Government.

5.3.2 Non-Current Assets

Perusal of the records produced at the time of audit (handing over report letter reference CCL/ADM/VOL./51 dated 17 March 2013) indicated that as at 28 February 2013 the fixed assets owned by the defunct County Council and handed over to the County Government amounted to Kshs.31,842,065. A review of the financial statements for the defunct County Council for the year ending 30 June 2012 revealed that fixed assets were stated at Kshs.31,848,647 translating to a decrease of Kshs.6,582 representing depreciation charge for the 9 months.

The balances for the period stated are made up of:

No.	Nature of Asset	Value as at: 30.06.2012 (Kshs.)	Value as at: 28.02.2013 (Kshs.)	Variance (Kshs.)
1.	Land and buildings	26,063,047	26,056,470	6,577
2.	Water works	984,919	984,919	0
3.	Office and Equipment's	819,251	819,251	0
4.	Infrastructure	2,864,866	2,864,866	0
5	Motor vehicles	188,746	188,746	0
6	Furniture and Fittings	927,818	927,813	5
Total		31,848,647	31,842,065	6,582

The following observations were made:

- Fixed assets register used for recording the assets by the defunct County Council as at the handing over date was not produced for verification.

- Assets inventory was not produced neither was it maintained.
- Assets were not labeled or marked to indicate ownership and there was no documentary evidence produced to indicate that assets were valued to reflect their fair values.
- Ownership documents for the assets were not produced except for 8 motor vehicles and one title deed reference MO/LAMU/ISLAND/BLOCK 11/20 dated 07 October 1991.

Recommendation

The Transition Authority should arrange for proper handing over of assets of the defunct Council to the County Government to enable the County Government have a basis of opening balances to be reflected in its books of account. The Council should prepare and maintain a proper and up to date fixed asset register, assets inventory, assets schedules and acquire relevant ownership documents for all assets under its custody. The Council should ensure that all assets acquired are accurately recorded at their fair values.

5.3.3 Debtors

The Council did not maintain a proper and up to date trade and other receivables ledgers to ensure that the balances are recorded at correct amounts, owned and reconciled regularly.

Documents made available at the time of audit (handing over report letter reference CCL/ADM/VOL./51 dated 17 March 2013) indicated that the trade and other receivables balance amounted to Kshs.86,488,613.

No.	Description	2013 (Kshs)
1.	CILOR	49,867,350
2.	Property Rates	35,973,463
3.	Market Stall Rentals	647,800
4.	Provision of bad debts	-
	Total	86,488,613

However, it has not been possible to confirm these balances as handed over to the County Government of Lamu as no relevant supporting documents were available for review. Therefore the correctness, accuracy, validity and full recoverability of the trade and other receivables balance of Kshs.86,488,613 could not be confirmed.

Recommendation

The County Government should develop an appropriate system for recording debtors to ensure accuracy of the records. Inherited debtors balances should be

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

5.3.4 Imprest Amounting to Kshs.1,800,222

It was observed that the defunct Council did not maintain an imprest register and warrants book to record the imprests issued and confirm their authorization. An amount of Kshs.1,800,222 issued as Imprest was surrendered using petty cash vouchers which were not supported by receipts for expenditure incurred and travel documents such as bus and air tickets as proof of travel. The authenticity of these imprests could therefore not be confirmed.

Recommendation

The County Government should develop an appropriate system for recording imprest to ensure accuracy of the records and have outstanding balances settled or recovered from the officers' salaries. All temporary imprest should be surrendered or accounted for within 48 hours following return from official journey. Imprest should be issued and accounted for in accordance with regulations in force time to time.

5.3.5 Procurement

During the period under review, it was observed that the Council had been operating without a procurement department and procurement plan and did not maintain a list of prequalified suppliers. The Council had implemented various capital projects during the period under review at a cost of Kshs.12,141,653.

Scrutiny of the records for these projects revealed the following observations:

- Procurement documents were not kept as the contracts agreements, minutes of the tender opening, technical and evaluation reports, letters of awards and progress reports were missing from the project files.
- Certificates of work done did not clearly state quantity of work done and were only attached to the payment vouchers for payment purposes.
- Certificates of work done and site meeting minutes were not in the project files.
- The project files did not contain the contractor's company profiles and the bills of quantities.

No explanation has been made as to why these records to support the projects could not be maintained and it was therefore not possible to confirm how the Council identified and engaged the contractors for these projects. The accountability of these projects could therefore not be confirmed. The completion of these projects could also not be determined.

Recommendation

Expenditure incurred on projects and any other procurement should be fully supported with relevant documentation.

5.3.6 Cash and Bank Balance

All bank accounts operated by the defunct local authorities were to be closed by 28 February 2013 and the funds be transferred to the County Revenue Fund.

A review of the cash and bank records made available indicated that various accounts held had the following balances as at 28 February 2013 as follows:

Account Name	Account Number	Amount (Kshs.)
Main Account	01108092799	2,056,724.90
LATF Account	01104745674	22,265,308.21
Kenya Roads Board Fund Acct.	01104741237	10,396.65
Market Conservancy Account	01104745062	6,321.35
Old Town market Account	01104752409	(1,317.85)
Cash on Hand	Cash count certificate	932,321.00
Total		25,269,754.26

Scrutiny of these balances with other relevant records and correspondences revealed the following:

- The bank accounts were not closed as at 28 February 2013 and no transfers were made to the County Revenue Fund as required.
- The accounts appeared to be in operation as evidenced by withdrawals from these accounts.
- No documented authority was produced to sanction the extension and continual withdrawals from these accounts

The amount withdrawn and expended on these accounts between 28 February 2013 and 30 June 2013 totalled to Kshs.19,014,376 and has not been supported by any authority confirming continued operations of these accounts after 28 February 2013.

Although it was indicated through letter reference LCG/FIN/18/VOL.1/2013/2 dated 14 June 2013 that the bank accounts were closed an amount totaling Kshs.6,255,378 transferred to the newly opened County Government LATF account number 01142230341 on 26 June 2013, no documentary confirmation has been made to support this. Further, certificates of bank balances and reconciliation statements for these accounts as at 30 June 2013 have not been produced for audit confirmation.

Recommendation

The bank accounts should be closed and balances transferred to County Revenue Account. Expenditure incurred during the period should be investigated and confirmed a proper charge to public funds.

5.3.7 Creditors

A review of the handing over report and the financial statements for the year ended 30 June 2012 indicated that a settlement of Kshs.27,519,161 was made to various classes of creditors as at 28 February 2013 as indicated in the table:

Class of Creditor	Financial Statement Kshs.	Handing Over Report (Kshs.)	Settlement made (Kshs.)
Staff and councilors	16,675,763	8,445,904	8,229,859
Statutory creditors	13,060,841	339,240	12,721,601
Supplier of goods and services	6,714,456	483,674	6,230,782
Retention monies	306,032	0	306,032
Deposits and prepayments	1,130,887	1,100,000	30,887
Total	37,887,979	10,368,818	27,519,161

Examination of the handing over report, previous financial statements, creditors' ledger and other related records produced for audit revealed the following observations;

- i. There was no list of individual creditors' balances to confirm the stated balances in the handing over report.
- ii. The settlement of Kshs.27,519,161 done to various classes of creditors between 1 July 2012 and 28 February 2013 was not supported by verifiable documents and it was therefore not possible to ascertain the accuracy, eligibility and propriety of the settlement. The balance of Kshs.10,368,818 indicated in the handing over report could not be confirmed.
- iii. There was no salary register maintained to record the arrears of staff and therefore it was not possible to confirm the balances from the records provided in form of a schedule.

Recommendation

Appropriate creditors records should be maintained to include particulars of each creditor. Also, the creditor's balances should be independently confirmed before effecting any payments. All creditors or payables should be properly recorded and accurately stated in the creditor's ledger by 28 February 2013 and the balances regularly reconciled to the creditors' statements.

5.3.8 Capital Projects Kshs.28,900,155

The Government through the Office of the Deputy Prime Minister and Ministry of Local Government granted the defunct County Council funds totaling Kshs.28,900,155 to support its service delivery activities during the period under review. Parts of the funds were meant for implementation of community based projects as per the Local Authority Service Delivery Action Plan (LASDAP). However, most of those projects are being undertaken by contractors who were not competitively selected. Some of the projects are beyond the scheduled completion period. Some project expenditures have exceeded their budget provisions. In addition, LASDAP reports through which various consultative meeting were held with the community to identify projects were not produced for audit.

Recommendation

All the projects identified and approved during the financial year through the LASDAP process should be undertaken and be implemented as per the annual budgets. Procurement procedures as stipulated in the Public Procurement and Disposal Act, 2005 should be strictly adhered to.

The Council should explain why the projects were not completed within the timelines specified in the project documents. Proper records should be maintained for all procurements done and those for projects from the stage of initiation of a project to its completion. The projects should be completed within the agreed timelines in the contract agreements.

5.3.9 Poor Maintenance of Project Records

Examination of project files and other related records revealed the following:

- The contracts agreements, minutes of the tender opening, technical and financial evaluation reports, letters of awards and progress reports were missing from the project files.
- Certificates of work done did not clearly state quantity of work done and how much the council had incurred or paid. The certificates were only attached to the payment vouchers for payment purposes.
- Certificates of work done and site meeting minutes were not in the project files.
- The project files did not contain the contractor's company profiles and the bills of quantities for ease of reference.

No explanation has been made that these records to support the projects could not be maintained and it was therefore not possible to confirm how the Council identified and engaged the contractors for these projects. The accountability of these projects could therefore not be confirmed. The completion of these projects could not be determined.

Recommendation

Proper records should be maintained showing all required details for these projects indicating clearly the contractors, costs involved, when they were initiated and when they were supposed to be completed. Further investigations should be undertaken to confirm whether there were any improprieties which affected non completion of these projects.

5.3.10 LATF Budget

During the 2012/13 financial year, the Council in its approved budget estimated to receive a total of Kshs.58,266,608.00 from the Central Government in form of LATF disbursements. Out of the disbursements, Kshs.35,403,359.00 was to be spent on service delivery account and Kshs.23,400,155.00 on community based and capital projects.

The disbursements received were as follows:

Date	Amount Kshs.
9 November 2012	26,219,972
22 February 2013	22,723,976
Total	48,943,948

The projects undertaken and confirmed during the year amounted to Kshs.4,782,816 and the LATF bank balance as at 30 June 2013 was Kshs.5,284,644.61. The LATF account as at 28 February 2013 had a balance of Kshs.22,265,308.21. However, no reconciliation have been made available confirming the movement of cash from this account.

Similarly no reconciliation has been provided to confirm the budgetary LATF projects figure of Kshs.23,400,155 against the projects implemented of Kshs.4,782,816, bank balance of Kshs.5,284,644.61 and disbursement of Kshs.22,265,308.21 as at 28 February 2013. Based on the budgeted figure of Kshs.23,400,155 against bank balance of Kshs.5,284,644.61 and implemented projects of Kshs.4,782,816 a variance of Kshs.13,332,694.39 has not been explained. It was therefore not possible to confirm whether the LATF funds were properly used.

Recommendation

The management of the defunct County Council should make a detailed explanation with supporting documentary evidence to account for the funds disbursed to the former council.

5.3.11 Verification of Projects

During audit the following projects were visited and their status is as indicated below.

Name of Project	Location	Approved Budget	Payments Made	Status
Fencing of Mokowe Market	Mokowe	0	510,690	2011/2012 project incomplete
Council toilet/office at Mpeketoni	Mpeketoni	2,000,000	450,000	Stalled
Perimeter wall at Twaifu Stadium	Lamu Island	2,100,000	465,450	Stalled

The defunct Council has not explained when the projects will be completed.

Recommendation

The management of the defunct Council should make a detailed explanation with supporting documentary evidence to confirm when the projects will be completed.

5.3.12 Construction of Sendemke Water Project Two (2) Kilometre Water Piping

A contractor was contracted to lay out a two (2) kilometer water pipe at Sendemke in Witu ward at a cost of Kshs.1,988,513. It was, however, observed that the Council did not have an engineer's estimate for the proposed works which could have been used as a basis for evaluating the contract and no expert from the Ministry of Water was engaged for professional guidance.

The Council paid a total of Kshs.1,730,006.60 on 28 February 2013 for the works done contrary to the directive that all bank accounts be closed and balances handed over to the County Government.

There was no contract agreement signed by both parties indicating the terms and conditions of the contract and therefore no verifiable documents were made available to confirm the period of contract and modes of payment for work certified.

The certificate of completion used in making payments did not indicate the measured items against which payments were to be made neither was an invoice raised by the contractor demanding payments for work done.

Minutes of the site meetings and progress reports were not produced for audit verification. In view of these reservations, it has not been possible to ascertain that due diligence was observed in making payments amounting to Kshs.1,730,006.60 and awarding this contract.

Recommendation

The Management of the defunct County Council should make a detailed disclosure of how the project cost was arrived at, certified and handed over to the community. Proper contracts should be signed before any works are initiated after following the laid down procurement procedures as stipulated in the Public Procurement and Disposal Act, 2005 and the Regulations of 2006.

5.3.13 Fencing of Mokowe Market

Fencing of Mokowe Market was awarded to a contractor in the financial year 2011/2012 at a contract sum of Kshs.1,230,000 against a budgetary allocation of Kshs.1,000,000 as indicated in the project status report produced for audit. It was observed that a total of Kshs.971,700 had been paid towards the project as at the close of the 2011/2012 financial year.

As indicated in our previous reports, the contractor was overpaid a total of Kshs.344,025 for 278 poles not erected at site and 278 holes not excavated whose values are Kshs.298,850 and Kshs.45,175 respectively.

It was observed that the building inspector through an internal memo to the Clerk requested for extra payments valued at Kshs.587,000 for clearing bush of shrubs, manual excavation and placing of poles. The Council vide cheque number 001800 dated 4 July 2012 made payments in favor of the contractor amounting to Kshs.510,690.00 for the works.

However there was no cost estimate upon which the individual items paid for were based and the contractor did not raise an invoice demanding payments for work done. The Council did not seek quotations or issue a local purchase order to the contractor to undertake the works and there was no certificate of completion indicating how the works were measured to warrant the payment made. In the absence of the relevant documentary evidence to confirm the regularity of the payment made, its accuracy and propriety could not be confirmed.

Recommendation

Projects, works and services should be supported by Local Service Orders(LSO's),Bills of Quantities documents, project files, contractors invoices, completion certificates from technical departments and inspection and acceptance committee reports. The Management of the defunct County Council should also make a detailed disclosure on the source of unbudgeted funds used to pay for the project and fully accounted for the project.

5.3.14 Bank Withdrawals after 28 February 2013

A scrutiny of the bank statements and other related records revealed that between 5 July 2012 and 21 May 2013, the Management of the defunct County Council authorized cash withdrawals from the bank amounting to Kshs.90,376,128. It was, however, observed that out of the total withdrawals, Kshs.8,536,378 were made after 28 February 2013 despite instructions relayed to the former clerk that bank accounts be closed by this date and the balance be transferred to the County Government. No authority was made available to sanction the withdrawals after 28 February 2013.

Recommendation

The management of the defunct Council should make a detailed disclosure on the withdrawals made after 28 February 2013. Investigations should be commenced to confirm the appropriateness of the expenditure incurred. Bank withdrawals should not be made without lawful authority.

5.3.15 Stores

Some items procured and delivered to the council during year under review were not entered in the stores bin cards. Based on a sample of payment vouchers the following observations were made:

- (i) A payment of Kshs.166,250 was made to a supplier being cost of supplying various tools and equipment is to the Council. However, no local purchase order or quotation inviting the firm to supply these items was available and produced for audit verification. The items purportedly supplied were not taken on charge in the stores ledger.
- (ii) A supplier was paid Kshs.65,000 on 6 June 2013 for supply of fuel to undisclosed motor vehicle. Documents attached to the payment voucher were invoice and cash sale both dated 6 June 2013 which had no serial numbers. There was no documentary evidence to indicate how the services of the firm were procured and whether the fuel was withdrawn, recorded and put to intended use.

Recommendation

The procurement section should ensure that the stores section is properly manned. All unrecorded items should be accounted for by the officers who acknowledged delivery. The former council officials should explain and take charge of the items in the stores records. The Council is supposed to maintain proper stores records and ensure that all items procured are taken on charge in the stores ledgers. Fuel purchased should be recorded in the work tickets. Items issued to various users should also be recorded and balances reconciled regularly.

5.3.16 Staff Salary Arrears

The defunct Council paid a total of Kshs.1,466,311 to retired staff being unpaid staff salary arrears. There was no list of staff, whose arrears had accumulated, produced for audit verification and the payment was made in cash casting doubt as to the actual receipt of cash by the intended beneficiaries.

Recommendation

Critical job evaluation and assessments should be done if not yet done to facilitate deployment of key staff to relevant departments. This will also assist in recruitment of new staff with skills similar to the existing staff. The County Government should also carry out audit of the staff to ascertain the optimum number and skill gaps which

needs to be filled in future. The management of the defunct Council should account for the payment and a disclosure of the intended beneficiaries made.

5.3.17 Lunches

An amount of Kshs.325,000 was paid to 21 Council staff indicated as being cost of lunches while visiting Mokowe, Hindi and Baragoi to inspect issuance of part development plan to squatters for 15 days at the rate of Kshs.1,000 each. The payment was not recorded in the personal ledgers and remained unaccounted for as at the time of audit.

Recommendation

Expenditure incurred should be fully supported with necessary approval documents so that eligibility of the payments can be verified and confirmed. The management should be made to account for expenditure incurred and paid for without proper supporting documents.

5.3.18 Demolition Expenditure

Kshs.560,000 was paid to Council staff being cost of bush clearing and demolition of identified illegal structures at Hindi, Magogoni and Mokowe settlement schemes. The work plan and cost estimate for the work was not produced for verification. The criteria used in selecting the staff and their ability to undertake the work was not produced. The payment was not accounted for as at the time of audit.

Recommendation

Expenditure incurred should be fully supported with necessary approval documents so that eligibility of the payments can be verified and confirmed. The management should be made to account for expenditure incurred and paid for without proper supporting documents.

5.3.19 Baggage Allowance Kshs.160,000

Baggage allowance of Kshs.160,000 was paid to a Council staff being cost of transportation of personal belongings from Kajiado to Lamu. It was, however, observed that the amount was paid in cash to the staff and there was no documentary evidence to indicate how the transport firm was identified for the service and whether the baggage was actually transported.

Recommendation

Expenditure incurred should be fully supported with necessary approval documents so that eligibility of the payments can be verified and confirmed. The management should be made to account for expenditure incurred and paid for without proper supporting documents.

5.3.20 Expenditure-Kshs.3,995,971

Amount totaling Kshs.3,995,971.15 was paid to various merchants during the period under review. It was, however, observed that in the absence of a list of pre-qualified suppliers it could not be ascertained how the merchants were identified and awarded supply of goods and services. The payments were made in cash and it could not be confirmed whether the cash was received by the merchants for goods and services rendered.

Recommendation

Expenditure incurred should be fully supported with necessary approval documents so that eligibility of the payments can be verified and confirmed. The management should be made to account for expenditure incurred and paid for without proper supporting documents.

5.4 Information Systems assessment

5.4.1 Management of IT operations

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

- ICT policies and procedures
- Network Diagram
- Business Continuity Plans
- Disaster Recovery Plans

5.4.2 IT organization structure

The County IT department has two (2) personnel. However, there are no defined roles and responsibilities on how to oversee the IT operations hence there is no clear segregation of duties.

5.4.3 Non-training of ICT staff on applications in place

Our interview with the ICT staff at the County revealed that no Staff had been trained on the IFMIS application, G-PAY and IPPD and therefore they could not offer the necessary ICT support to users as it is required.

5.4.4 Staff Training on IFMIS

Eight (8) officers of the County have been formally trained on IFMIS at Kenya School of Government. The trained officers have access to system.

5.4.5 IT Budget

The County has an allocation of Kshs 11 million for ICT in budget. The budget is broken down in Kshs 6 million for Governor Office and 5 million for County Assembly. However, the County is the process of preparing a supplementary budget which would have more resources allocated to the IT department.

5.4.6 Computers and Accessories

The County had received nineteen (19) computers, nineteen (19) special orange CDMA modems and one scanner from The National Treasury (IFMIS Department) which will be solely used for IFMIS. The Interim ICT Manager has not been able to carry out an assessment of the ICT Status and Infrastructure of the County. There was no ICT register kept or assessment of the existing infrastructure done.

The County has no data center (Server Room). Previously the County operated on manual systems. However, the County is in the process of developing a data center.

5.4.7 Network connectivity

There is no established Wide Area Network at the County to connect the various Sub-County offices.

5.4.8 Integrated Financial Management Information System (IFMIS) and G-Pay

IFMIS has been installed in the County with only Budgeting module operational. The computers use Orange CDMA Modems to connect to IFMIS through the Treasury's Virtual Private Network (VPN). The Orange connectivity is poor due to poor network signals. Currently, all payments are done manually by use of cheques. However, the network issue was solved through dedicated link from Telkom.

The County had received one computer from The National Treasury which is dedicated for G-Pay. The system is not in use because the County has not operationalized IFMIS.

5.4.9 LAIFOMS

The County has been using manual systems. However, LAIFOMS has been installed but not in use. The County is organizing to train users on system before they start using the system.

5.4.10 IPPD

The County Rolled out IPPD in July 2013 however at the time of audit, the payroll manager was not around to avail the data for interrogation.

Recommendations

- The County should develop and approve the key ICT documents that ensure proper management of IT operations. These documents govern key IT operations including use of passwords, back-ups, maintenance of IT equipment, and continuity of IT critical operations in the event of a disaster and network management. In addition, these documents should also be circulated to staff so as to create awareness and ensure compliance.

- The County may consider having a wide area network (WAN) that connects all the sub-counties with the County headquarters so as to ensure that operations are centrally managed.
- The ICT department, as strategic resource, needs to be adequately staffed and with defined roles so as to effectively manage the IT operations of the county.
- The IT County Department should be enhanced in terms of personnel to adequately manage the IT operations in an efficient and effective manner.
- The County should ensure proper power back up to ensure continued operation despite of power failure.

5.4.11 Conclusion

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



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AUDITOR-GENERAL

Nairobi

13 March, 2014