REPUBLIC OF KENYA

KENYA NATIONAL AUDIT OFFICE

REPORT

OF

THE AUDITOR–GENERAL

ON THE

FINANCIAL OPERATIONS

OF

THE COUNTY GOVERNMENT OF SAMBURU AND ITS DEFUNCT LOCAL AUTHORITIES

FOR THE PERIOD I JANUARY TO 30 JUNE 2013

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

EXECUTIVE SUMMARY

1. Introduction

1.1 General

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 Further, the County Government Act, 2012 Section 134 (1) repealed the Local Government Act, Cap 265, and thus effectively dissolving all the 175 Local Authorities and creating 47 County Governments.

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

1.3 This report covers operations of the County Government of Samburu comprising the County Government Executive, the County Assembly, the defunct Samburu County Council and the defunct Maralal Town Council.

1.4 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. Audit Objectives

The audit covered the County Government of Samburu and the two defunct Local Authorities transactions for the period 1 January to 30 June, 2013 and took into account transactions before, during and after the transition period. The objective of the audit was to verify the County Government’s preparedness to receive and utilize devolved funds 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 Authorities
- ✓ 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
- ✓ IFMIS Implementation

KEY AUDIT FINDINGS

3. COUNTY GOVERNMENT EXECUTIVE

3.1 Failure to take over the Defunct Local Authorities

The County Government of Samburu had not officially taken over the assets and liabilities of the former County Council of Samburu and the Town Council of Maralal as at the time of audit conclusion on 27 September, 2013 contrary to instructions issued by the Ministry of Local Government vide Circular No. MLG/1333/TY/52 of 18th February, 2013. Arrangements should be made by Transition Authority to have assets and liabilities of the former County Councils handed over to the County Government. It was, therefore, not possible to establish the completeness of the assets and liabilities taken over by the County Government of Samburu.

3.2 Cash and Bank Balances

i) Failure To Close Bank Accounts

The bank accounts of the former local authorities were not closed and balances transferred to the County Government Revenue Account by 28 February, 2013, the deadline set by the Transition Authority but were instead left open and operated by the former Councils up to 27 June 2013. Failure to close bank accounts implied that revenue collections continued to be banked in these accounts, and expenditure incurred, contrary to the law. The bank accounts should be closed and balances transferred to County Revenue Account. Expenditure incurred during the period should also be investigated and confirmed if it is proper charge to public funds. Cashbook records should be updated and monthly bank reconciliations done to support the accuracy of the balances.

ii) Failure to prepare Bank Reconciliation

The Samburu County Government opened a standing imprest account No.1140816381 at Kenya Commercial Bank on 23 April 2013 into which Kshs.299,400,153.00 was deposited as at 9 September 2013. It was observed that though the funds were utilized, the cashbook was not updated and no bank reconciliations were prepared. Without an up to date and reconciled cash book, irregular withdrawals can be made from the account and any errors might not be detected promptly.

3.3 Expenditure

i) Unauthorized Payments

Review of expenditure controls at the County revealed that Payment totaling Kshs.29,176,562.00 were not subjected to examination and vote book certification contrary to the financial controls stipulated under Section 104(i) of the Public Finance Management Act, 2012 which requires the county Treasury to ensure proper management and control of, and accounting for the finances of the County Government. Such lack of examination and vote book control might lead to misuse and loss of funds.

All payments for goods and services should be checked and authorized in accordance with the Public Procurement and Disposal Act, 2005. Payments made during the transition period should be investigated, authenticated and properly recorded and ineligible expenditure recovered from culprits. Elaborate expenditure authorization and controls system should be put in place.

iii) Allocation of bursary funds

During the period March 2013 to June 2013, the County Government of Samburu paid bursary funds totaling Kshs.867,825.00 to needy students in secondary schools and tertiary institutions without vetting the beneficiaries and there were no acknowledgement letters from the learning institutions confirming receipts of cash. The County Government should provide evidence and supporting documents of the receipt of funds by the intended beneficiary schools and the process of vetting the beneficiaries.

3.4 Motor vehicles, plant and machinery

The County Government failed to maintain an assets register to track the assets taken over from the defunct local authorities and those it has acquired on its own. This was in contravention of the Public Finance Management Act, 2012 which required a County Government entity to keep such record.

The County Government should identify, take stock and tag all the assets taken over from the seven defunct Local Authorities and those being acquired by the County Government. The assets should be valued to ascertain their fair values. All the assets should systematically be recorded in the Integrated Fixed Assets Register of the County Government. The register should be updated on regular basis.

3.5 Information Systems Assessment

A) Hardware

i) Computers

The County had received nineteen (19) desktop computers from The National Treasury (IFMIS Department) which will be solely used for IFMIS. Seventeen (17) of these Computers had been allocated to various users, however, six (6) of them were faulty and had not been replaced by the IFMIS Department. Two (2) computers had not been issued. It was also noted that none of the computer had anti-virus installed.

The IT Department had in place an ICT Asset Register where all IT inventory transferred from the defunct Samburu County Council were recorded. There was no IT asset register for Maralal Town Council.

ii) Server

The County had in place one (1) operating server for the former Samburu County Council.

iii) Network Connectivity

There was no established Wide Area Network at the County to connect various Sub-County offices. However, the existing Local Area Network (LAN) at the Office of the Governor which also is County Assembly offices and Sub- County offices of Samburu West was not able to meet the current network demands of the office. There was no established LAN at the County Treasury Office and at the other two (2) Sub-Counties; Samburu North and Samburu East.

B. Software

i) Integrated Financial Management Information System (IFMIS)

The County had only utilized one module i.e. Plan to Budget while the rest of the modules were yet to be utilized and the financial operations were still manual. As at the date of assessment, the County had managed to upload the 2013/14 budget into the system. The Supplementary budget had not been uploaded to the system.

ii) Training on IFMIS

Nineteen (19) County staff had been trained at Kenya School of Government on IFMIS including three (3) officers from the ICT Department.

iii) Connectivity

Nineteen (19) Orange Modems were received by the County for IFMIS and it was observed that the orange signal in Maralal was average and could require boosting of the signals through communication enhancer.

iv) G-PAY

The County had two computers in place dedicated for the use for G-Pay. Only two (2) County officers had been assigned G-Pay roles of Administrator, Approver, Verifier and Data Entry.

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

LAIFOMS was installed in one (1) site that is at the former Samburu County Council office. Therefore, the County had only automated revenue collection in one (1) of its Sub-Counties; Samburu West. Samburu North and Samburu East Sub-Counties were still operating manually. The Receipting module was the only active module in the assessed site while the expenditure Module was automatically disabled from June 30, 2013.

vi) Integrated Payroll and Personnel Database (IPPD)

The County had implemented IPPD system and the payroll beginning July, 2013 was processed using the system. There was only one (1) user, the Interim Payroll Manager, who had been trained on the use of the system while five (5) other officers were to be trained at Kenya School of Government, Baringo for one week beginning 7 October, 2013. However, it was noted that two (2) of the staff working in the Payroll Department were ICT officers in the ICT Department and, therefore, there was no clear segregation of duties. These two officers also had access rights to the IPPD system.

The data migrated into IPPD had the following integrity issues:

- There were four (4) officers whose basic salary increased irregularly from the months of June to July 2013 as the payroll data was being migrated from LAIFOMS to IPPD.
- There were four (4) officers who earned leave allowance twice during the same financial year in the months of July and August 2013.

- There were five (5) officers whose records in IPPD showed that they were employed into permanent and pensionable terms of service below the statutory minimum age of eighteen (18) years.

- There were three (3) officers who were employed in 2013 on contract basis but placed under permanent and pensionable terms of service in the IPPD.

- There were four (4) officers who continued earning special duty allowance and one (1) officer acting allowance after March 4 when the local authorities ceased to exist.

- There were four (4) officers with incorrect Identification card Numbers.

- There were one hundred and fifty seven (157) officers with Incorrect Tax Personal Identification Numbers.

- There was one bank account number which was being shared by two officers.

- There were thirty seven (37) officers whose dates of birth in LAIFOMS and in IPPD were different.

- There were forty four (44) officers whose dates of employment in IPPD and in LAIFOMS were different.

C) IT Control Environment and ICT Governance

- The IT section had three (3) personnel and the ICT Manager had not allocated various roles to different officers within the department since there was no formal ICT organizational Chart.

- A review of the 2013/2014 County budget showed that it did not have a specific allocation to the IT Department. From the interview conducted it was observed that ICT Development Expenditure was incorporated in the County Assembly and County Executive Administration amounting to Kshs.17,760,000. This amount allocated to the ICT department may not be adequate for the County to achieve its planned developments in the automation of its revenue collection and expenditure. It was also observed that the IT department was involved in the preparation of the budget.

- The County did not have an Executive Member who will solely be in charge of ICT, instead, the Executive Member in charge of Finance and Economic Planning also oversees the functions of the ICT. This indicates that the County has not given ICT autonomy and therefore may not be able to adequately provide the support as a strategic resource to enable the County achieve its objectives effectively and efficiently.

- The County was yet to develop and implement some of the key ICT documents including; ICT policies and procedures, Business Continuity Plan (BCP) and Disaster Recovery Plans (DRP). There was also no ICT Steering Committee in place.

- The server room did not have adequate physical access and environmental controls.

d) Recommendations and Conclusion

- The County should ensure that all its Sub-County offices are inter-connected to the County headquarters to ensure efficient monitoring of each Sub-County processes.

- The ICT Department should ensure that it maintains a complete IT Assets Inventory indicating the location and condition of each equipment.

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

- The County should ensure that all IT systems in place are fully utilized for its financial operations and all modules are in use.

- The County should ensure that all its financial operations are automated.

- Going forward the County should make adequate budgetary provision to ICT Department so as to ensure the achievement of the IT strategy and goals.

- 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.

- The ICT Department should ensure that all machines are installed with anti-virus software to prevent the risk of virus attacks.

- Adequate physical access and environmental controls in the server room need to be put in place.

4. THE COUNTY ASSEMBLY

4.1 Cash and Bank Balances

i) Failure to Maintain Separate Cash Books

Review of the Cash and bank controls by the County Government maintained revealed that one cashbook was being used to record transactions for both the Executive and the County Assembly, although these are distinct accounting units within the County. All expenditure of the County Assembly was executed by the Executive and accounting records were merged. Separate cashbooks should be opened and maintained for each unit to enhance proper accountability of funds allocated to them and maintain independence.

ii) Unauthorised Pre-Allocation of Funds

The approved budget allocation of Samburu County of Kshs.133,759,268.00 out of which Kshs.73,680,633.00 was for the County Assembly Services, Kshs.29,547,776.00 was for the County Executive Services and the balance of Kshs.30,530,859.00 was for Finance Management Services. However, the allocation for the Finance Management Services was revised upwards to Kshs.75,746,120.00 without approval of the Controller of Budget.

The County government should follow rules and regulations provided for the Public Finance Management Act and regulations.

5 THE DEFUNCT TOWN COUNCIL OF MARALAL

5.1 Revenue - Unbanked of Revenue Receipts

The receipts cash book for the period July 2012 to August 2013 showed that the former Town Council of Maralal collected Kshs.13,318,644.00 in revenue but only Kshs.7,025,640.00 was banked resulting in unbanked revenue of Kshs.6,293,004.00 contrary to paragraph 3.2.0 of the Treasurer's Manual which required all revenues collected in full, recorded, safeguarded and banked intact.

Detailed analyses of all revenue collected during the transition period at the two defunct Local Authorities should be undertaken and variances explained. Proper systems should be put in place to ensure that revenue collected is promptly receipted, recorded and banked intact. In addition, revenue collection in the entire County should be computerized where integrated automated receipting system is used. The County Government should also put in place strong internal control system to ensure proper accountability at every stage in the revenue collection cycle. Revenue collection control sheets should be maintained by the County Revenue Officer. The County Government should employ optimal experienced revenue collectors and internal auditors on permanent terms.

5.2 Bank and Cash Balances

The Town Council of Maralal operated two bank accounts at the Kenya Commercial Bank (KCB). The former Council did not prepare bank reconciliation statements as stipulated under paragraph F and J of the Local Authorities Financial Management Regulations, 2007. In the absence of bank reconciliation statements, the correct bank account balances may not be determined when handing over to the County Government. In addition, the continuous assurance on accuracy of bank and cash transactions is lost.

The County Government should maintain all the necessary cash books and ensure the bank reconciliation statements are prepared on monthly basis.

5.3 Debtors Records

It was observed that the former Council did not maintain a debtor's ledger with individual receivable accounts. It was therefore not possible to confirm the existence, completeness, age and collectability of debtors who owe the Council funds in respect of staff imprest, staff advances, land rent and property rates. In this respect, there is a possibility of loss of funds due to non collection of legitimate County debts.

Recommendations

i. Debtors' records should be reconstituted starting with the audited balances as at 30 June, 2012 and transferred to debtors' ledger. Monthly debtors' reconciliation should be done and recoveries commenced.

ii. The debtors' ledgers should be regularly updated so as to keep track of the debtors balances.

iii. The two defunct Councils should provide debtors ledgers, schedules and breakdown of individual balances transferred to the County Government of Samburu which in turn should harmonize the debtor's balances between the handing over notes and the Financial Statements of the defunct Local Authorities so as to establish the accuracy of the opening balances. The County Government should then open and maintain a consolidated debtor's ledger.

5.4 Creditors Balances

A summary list of creditors availed for audit shows that the former Council owed creditors Kshs.5,136,086.00 as at 31 March, 2013. However, the existence, completeness, and accuracy of the balance could not be confirmed since no records were maintained as required by Financial Management Rules and Regulations. Under the circumstances, the correctness of the creditors' balances was not confirmed.

The current balance of creditors should be validated, authenticated and properly recorded in the County Government ledgers. The creditors should be promptly recorded in the creditors ledger detailing particulars of each creditor and the same updated on a regular basis. The creditors balances should be confirmed independently before effecting any payments.

5.5 Expenditure - Missing Payment Vouchers

During the audit of expenditure receipts, management failed to avail for audit payment vouchers in respect of General Rate Fund (G.R.F) account amounting to Kshs.1,247,920.00 and Local Authority Transfer Fund (LATF) account Kshs.6,632,717.00 contrary to Section 37(i) of the Public Audit Act, 2003 which provides that the Auditor General shall have access to books, records, and other reports to which the audit relates. It was, therefore, not possible to verify what the funds were used for the propriety of the total expenditure of Kshs.7,880,637.00 is in doubt.

5.6 Motor vehicles, plant and machinery

The former Town Council did not maintain a fixed assets register. Only a list of motor vehicles with a total value of Kshs.9,210,000 was provided. The correctness of the balance of the fixed assets could not be confirmed in the absence of the assets register.

The County Government should identify, take stock and tag all the assets taken over from the defunct the three defunct Local Authorities and those being acquired by the County Government. All the assets should be systematically recorded in the Fixed Assets Register (FAR) of the County Government. The register should be updated on regular basis. The assets should be valued to ascertain the fair values.

6 DEFUNCT COUNTY COUNCIL OF SAMBURU

6.1 Bank and Cash Accounts

The defunct County Council of Samburu operated ten (10) bank accounts five of which were closed on 27 July, 2013 but the other five were indicated as being dormant and were not officially closed. Apart from the Main General Rate Funds account, no records were provided to establish the account balances available for transfer to the Samburu County Government Revenue account which was opened on 1 April, 2013. The delay to transfer of account balances to the County Government Revenue account is a breach of the Transitional Authority instruction as provided in circular reference TA/7/5/ (20) dated 12 February, 2013.

The banks accounts should be closed and balances transferred to County Revenue Account. Expenditure incurred during the transition period should also be investigated and confirmed proper charge to public funds. Cashbook records should be updated and monthly bank reconciliations done to support the accuracy of the balances.

6.2 Loss of cash in Fixed Deposit Account

27 October, 1999, the defunct Samburu County Council opened a three months fixed deposit account at the Co-operative Bank, Nyahururu with an initial amount of Kshs.20,847,671.25 vide deposit receipt No.006100. The account was severally rolled over but on 12 February, 2009 the bank indicated that it was holding only Kshs.5,000,000 under deposit receipt No. 018834 while the County Council insisted that the particular receipt was for Kshs.18,500,000. Following the conflicting information, the matter was forwarded for Police investigations. Further scrutiny of the fixed deposit account revealed that the money in the fixed deposit account irregularly used to provide guarantee to a private company.

Almost five years later in September, 2013 when this audit was carried out, no cash had been recovered and the officers who were signatories to the account have already left the service of the Local Authority. Fresh efforts should be made to investigate and pursue the matter. It is now upon the County Government to takes up the matter with the relevant arms of government with a view to unravelling the mystery and bring the culprits to account for the fraud.

6.3 Unconfirmed Banking of Revenue

Records of the former council show that in the period 1 January and 30 June, 2013, Kshs.122,204,253.00 was collected in revenues of which only Kshs.7,479,582.00 was banked. Further, the receipts cashier did not maintain a receipts cashbook reflecting the total daily collections and total daily banking together with a reconciliation thereof to explain any differences noted. Consequently, it was not possible to confirm the position of the balance of Kshs.114,724,671.00.

The huge unconfirmed balance should be investigated and duly accounted for. Detailed analyses of all revenue collected during the transition period at the County Council should be undertaken and variances explained. Proper systems should be put in place to ensure that revenue collected is promptly receipted, recorded and banked intact. In addition, revenue collection in the entire county should be computerized where integrated automated receipting system is used. The County Government should also put in place strong internal control system to ensure proper accountability at every stage in the revenue collection cycle.

6.4 Unsurrendered Imprest

Financial records examined show that as at 30 June, 2013, various officers had not accounted for Kshs.10,999,323.00 held as temporary imprest. Some officers held multiple imprests that have remained outstanding since July 2011 contrary to Section 5.6.5 of Government Financial Regulation and Procedures which requires temporary imprest to be accounted for within 48 hours after the event. Further, the Council failed to maintain an imprest ledger as provided at clause 3.7.2(vii) of the Treasurers Manual. Even copies of the warrants were not availed to ascertain the purpose for which the imprests were issued. Although reminders have been written to imprest holders to surrender the imprest, there was no evidence of a favourable response and it is likely that the funds may be lost.

The imprest holders and those who approved multiple imprests should be made to account for the possible loss in unsurrendered imprest. The County Government should put in place proper and adequate controls of imprests as provided for the financial Rules and Regulations.

6.5 Debtors

A listing of debtors availed for audit indicated that the Council was owed an amount of Kshs.12,600,000.00 in respect of ground rent by five hotels. However, the Council did not maintain a debtors' ledger into which payment receipts would be recorded. It was, therefore, not possible to state the period to which these debts relate and confirm the accuracy of the balances provided.

Debtors' records should be reconstituted starting with the audited balances as at 30 June, 2012 and transferred to debtors' ledger. Monthly debtors' reconciliation should be done and recovered. The debtors' ledgers should be regularly updated so as to keep track of the debtors' balances.

6.6 Creditors

(i) Unconfirmed Statutory Liabilities

A briefing statement to the County Governor 19 April, 2013 indicated that the defunct Council owed LAPTRUST Kshs.24,637,002.00 and the NSSF Kshs.7,730,600.00 total Kshs.32,367,602.90. However, a demand notice from LAPTRUST on 11 April, 2013 indicated a balance of Kshs.11,256,173.30. Though the liability with NSSF was not independently confirm, it is likely that the Council records may reflect inaccurate balances since a creditors' ledger was not maintained to record details of the balances.

(ii) Unconfirmed Liabilities to Contractors

Contractors of capital projects in the former County Council of Samburu were indicated to be owed Kshs.10,743,118. However, supporting documents such as project files, contract agreements, and payment certificates were not availed for audit. The Work in Progress register was also not maintained. Without good records, the County Government may inherit inaccurate liability in respect of the contractors. It is up to the County Government to cause the records to be prepared using certificates of work done and the relevant payment documents.

(iii) Doubtful General Creditors Balance

A list of liabilities availed for audit indicated that the Council owed general creditors an amount of Kshs.9,225,144.70. There was no ledger, and primary records such as requisition notes, Local Purchase Orders (LPOs), delivery notes and invoices were not availed to support the outstanding credit balances. In the absence of these supporting documents, it was not possible to ascertain the accuracy of the creditors' balances of Kshs.9,225,144.70.

Recommendation

The current balance of creditors should be validated, authenticated and properly recorded in the County Government ledgers. The creditors should be promptly recorded in the creditors ledger detailing particulars of each creditor and the same updated on a regular basis. The creditors balances should be confirmed independently before effecting any payments.

6.7 Unconfirmed Motor Vehicle Repair and Maintenance Costs

It was noted that on 14 March, 2013 a motor vehicle was repaired at a cost of Kshs.436,495 at a garage in Nakuru town. However, the Council did not keep logbooks for recording repair and maintenance activities for each vehicle as a control mechanism. It was, therefore, not possible to ascertain if the cost of repairs and maintenance was in respect of the particular vehicle, was necessary and that the repairs actually took place.

Conclusion

The forgoing observations clearly indicate that the process of taking over of assets and liabilities, including staff of the two 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. Similarly, according to Section 194 of the PFMA, 2012, the Public Sector Accounting Standards Board is charged with the mandate of developing model accounting and reporting systems for the National Treasury which shall be adopted by the County Government in order to ensure standards applicable across the County Governments. This had not been done.

The County Government of Samburu 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.

Expenditure should be incurred in accordance with the requirements of the Public Finance Management Act, 2012 and for the benefit of the tax payers.

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

Edward R. O. Ouko, CBS
<u>AUDITOR-GENERAL</u>

Nairobi

6 March 2014

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

1.0 Audit Objectives

The following were the main audit objectives:

- Confirm existence of proper accountability of cash and bank balances before, during and after transition to the County Government.
- Confirm that revenue and expenditure were recorded and properly accounted for before, during and after the transaction period.
- Confirm that operational debtors and creditors were accurately recorded and transferred from the defunct local authority to County Government.
- Establish that assets taken over by the County Government are properly listed, exist and are being used to provide services to the County.
- Ensure that assimilation of the defunct local authority's staff with other county government staff is seamless and no ghost workers or irregular change of items have been imported in the new IPPD system.
- Ensure that the County Assembly and Executive Committees comply with the budget and that expenditures are properly charged to County Revenue Fund.
- Ensure that ICT system is not circumvented by manual system where IFMIS and G – Pay systems are fully implemented.
- Confirm that where manual systems are in use, proper accountability system is put in place and specific plans for system changeover exist.
- Confirm that procurement of goods and services is done in accordance with the Public Procurement and Disposal Act, 2005, and related 2006 Regulations.

1.1. Scope of Audit

The audit covered the County Government of Samburu comprising the County Government Executive, the County Assembly, the defunct Samburu County Council and the defunct Maralal Town Council. The audit mainly focused on cash and bank balances, current debtors and supplies balances, non – current assets, revenue and payroll and for the period January to June, 2013.

KEY AUDIT FINDINGS

2. COUNTY GOVERNMENTS EXECUTIVE

2.1 The taking- over of the former Local Authority

The Transitional Authority directed all Local Authorities to prepare a detailed list of assets, liabilities and staff by the close of 28 February, 2013 which were to be handed over to the County Government after the conclusion of the general election of 4 March, 2013. The following was noted:

- The former County Council of Samburu prepared a summarized handing over report but there was no official take over by the County Government.

- The report was not backed by a detailed list of the, assets, liabilities and staff as was envisaged.

- The Town Council of Maralal did not prepare a handing over report
- The town Council did not prepare a detailed list of functions, assets, liabilities and staff as required.

The County Council of Samburu acted in contravention of the Transition Authority directive and may not know the accuracy of the assets and liabilities it took over.

2.2 Cash and Bank Balance

The Samburu County government opened a standing imprest account No.1140816381 at Kenya Commercial Bank on 23 April, 2013 into which Kshs.299,400,153 was deposited as at 9 September 2013. Though the funds were utilized, the cashbook was not updated as two deposits of Kshs.32,430,000 and Kshs.71,618,685 were not posted. The cash books were also not reconciled. Without an up to date and reconciled cash book, irregular withdrawals can be made from the account and any errors might not be detected promptly.

2.3 Unauthorized Payments

According to Section 104(i) of the Public Finance Management Act 2012, the County Treasury is required to ensure proper management and control of, and accounting for the finances of the County Government and its entities in order to promote efficient and effective use of the County's budgetary resources. An examination of the payment vouchers revealed that expenditure totaling Kshs.29,176,562.00 was not subjected to examination and vote book certification. The payments were made under expenditure head No. 0002 for budgetary allocation to county executive services and expenditure head No.003 for finance management services. The payments were made in disregard of the stipulated financial controls which could lead to misuse and loss of funds.

2.4 Allocation of Bursary Funds

During the period March 2013 to June 2013, the county government paid bursary funds totaling Kshs.867,825.00 to needy students in secondary schools and tertiary institutions. However, there was no evidence that a transparent vetting process of beneficiary students took place and no acknowledgement letters were received from the respective institutions confirming receipts of cash. Under the circumstances it is doubtful if the allocations were made to deserving students.

2.5 Motor vehicles, plant and machinery

The County Government failed to maintain an assets register to track the assets taken over from the defunct Local Authorities and those it has acquired on its own. This was in contravention of the Public Finance Management Act, 2012 which required a County Government entity to keep such record.

The County Government should identify, take stock and tag all the assets taken over from the seven defunct Local Authorities and those being acquired by the County Government. The assets should be valued to ascertain their fair values. All the assets should systematically be recorded in the Integrated Fixed Assets Register (FAR) of the County Government. The register should be updated on regular basis.

2.6.1 Information Systems Assessment

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The IT Department had in place an ICT Asset Register where all IT inventory transferred from the defunct Samburu County Council were recorded. There was no IT asset register for Maralal Town Council.

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The County had in place one (1) operating server for the former Samburu County Council.

(iii) Network connectivity

There was no established Wide Area Network at the County to connect various Sub-County offices. However, the existing Local Area Network (LAN) at the Office of the Governor which also is County Assembly offices and Sub- County offices of Samburu West was not able to meet the current network demands of the office. There was no established LAN at the County Treasury Office and at the other two (2) Sub-Counties; Samburu North and Samburu East.

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iii) Connectivity

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iv) G-PAY

The County had two computers in place dedicated for the use for G-Pay. Only two (2) County officers had been assigned G-Pay roles of Administrator, Approver, Verifier and Data Entry.

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

LAIFOMS was installed in one (1) site that is at the former Samburu County Council office. Therefore, the County had only automated revenue collection in one (1) of its Sub-Counties; Samburu West. Samburu North and Samburu East Sub-Counties were still operating manually. The Receipting module was the only active module in the assessed site while the expenditure Module was automatically disabled from 30 June, 2013.

vi) Integrated Payroll and Personnel Database (IPPD)

The County had implemented IPPD system and the payroll beginning July, 2013 was processed using the system. There was only one (1) user, the Interim Payroll Manager, who had been trained on the use of the system while five (5) other officers were to be trained at Kenya School of Government, Baringo for one week beginning 7 October, 2013. However, it was noted that two (2) of the staff working in the Payroll Department were ICT officers in the ICT Department and therefore there was no clear segregation of duties. These two officers also had access rights to the IPPD system.

The data migrated into IPPD had the following integrity issues:

- There were four (4) officers whose basic salary increased irregularly from the months of June to July 2013 as the payroll data was being migrated from LAIFOMS to IPPD.
- There were four (4) officers who earned leave allowance twice during the same financial year in the months of July and August 2013.
- There were five (5) officers whose records in IPPD showed that they were employed into permanent and pensionable terms of service below the statutory minimum age of eighteen (18) years.
- There were three (3) officers who were employed in 2013 on contract basis but placed under permanent and pensionable terms of service in the IPPD.
- There were four (4) officers who continued earning special duty allowance and one (1) officer acting allowance after March 4 when the local authorities ceased to exist.
- There were four (4) officers with incorrect Identification card Numbers.
- There were one hundred and fifty seven (157) officers with Incorrect Tax Personal Identification Numbers.
- There was one bank account number which was being shared by two officers.
- There were thirty seven (37) officers whose dates of birth in LAIFOMS and in IPPD were different.
- There were forty four (44) officers whose dates of employment in IPPD and in LAIFOMS were different.

C. IT Control Environment and ICT Governance

- The IT section had three (3) personnel and the ICT Manager had not allocated various roles to different officers within the department since there was no formal ICT organizational Chart.

- A review of the 2013/2014 County budget showed that it did not have a specific allocation to the IT Department. From the interview conducted it was observed that ICT Development Expenditure was incorporated in the County Assembly and County Executive Administration amounting to Kshs.17,760,000. This amount allocated to the ICT department may not be adequate for the County to achieve its planned developments in the automation of its revenue collection and expenditure. It was also observed that the IT department was involved in the preparation of the budget.

- The County did not have an Executive Member who will solely be in charge of ICT, instead, the Executive Member in charge of Finance and Economic Planning also oversees the functions of the ICT. This indicates that the County has not given ICT autonomy and therefore may not be able to adequately provide the support as a strategic resource to enable the County achieve its objectives effectively and efficiently.

- The County was yet to develop and implement some of the key ICT documents including; ICT policies and procedures, Business Continuity Policies (BCP) and Disaster Recovery Plans (DRP). There was also no ICT Steering Committee in place.

- The server room did not have adequate physical access and environmental controls.

e) Recommendations and Conclusion

- The County should ensure that all its Sub-County offices are inter-connected to the County headquarters to ensure efficient monitoring of each Sub-County processes.
- The ICT Department should ensure that it maintains a complete IT Assets Inventory indicating the location and condition of each equipment.
- The County should carry out a data clean-up of its human resource data to ensure the integrity of the payroll data.
- The County should ensure that all IT systems in place are fully utilized for its financial operations and all modules are in use.
- The County should ensure that all its financial operations are automated.

- Going forward the County should make adequate budgetary provision to ICT Department so as to ensure the achievement of the IT strategy and goals.

- 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.

- The ICT Department should ensure that all machines are installed with anti-virus software to prevent the risk of virus attacks.

- Adequate physical access and environmental controls in the server room need to be put in place.

3. THE COUNTY ASSEMBLY

3.1 Failure to Maintain Separate Accounting Books

According to Section 8 of the County Government Act, 2012, the County Assembly is mandated to play an oversight role over the County Executive. It was observed that the expenditure of the County Assembly was merged into the expenditure of the Samburu County Executive which operated one cash book. All expenditure of the County Assembly was executed by the Executive and accounting records were merged. Without distinct accounting books for the two entities, it may not be possible to uphold financial budgetary discipline and the role of the County Assembly as watchdog of the people could be compromised.

3.2 Unauthorised Pre-allocation of Funds

The Kenya gazette supplement No. 13 of 25 January, 2013 provided approved budget allocation for Samburu County of Kshs.133,759,268.00 to be shared amongst the County Assembly Services – Kshs.73,680,633.00 the County Executive Services – Kshs.29,547,776.00 and the Finance Management Services – Kshs.30,530,859.00 Subsequently and for unexplained reasons, the County Assembly revised the budget to Kshs.40,583,580.00 for the County Assembly, Kshs.17,429,568.00 for the County Executive Services and Kshs.75,746,120.00 for the Finance Management Services. It is not known what prompted the reallocation but clearly the oversight role of the County Assembly over the County Executive is at stake. The two institutions should operate as provided under the law.

4.0 THE DEFUNCT TOWN COUNCIL OF MARALAL

4.1 Unbanked Revenue Receipts

According to paragraph 3.2.0 of the Treasurer’s Manual, all revenue due to the Council should be collected in full, recorded, safeguarded and banked intact. A review of the receipts cash book for the period July 2012 to August 2013 showed that the Town Council of Maralal collected revenue totaling to Kshs.13,318,644 but only Kshs.7,025,640.00 was banked. The explanation provided was that the difference of Kshs.6,293,004.00 was spent at source on operations but the expenditure receipts, analyses and the authority to spent at source were not availed for audit confirmation. It is evident that the former Council blatantly acted in contravention of the standing regulations regarding management of revenues. Under the circumstances, the cash may have been utilized for personal gain and all those responsible should be brought to account.

4.2 Non-preparation of Bank Reconciliation Statements

The Town Council of Maralal operated two bank accounts at the Kenya Commercial Bank (KCB), namely the General Rate Fund A/c No. 1104413124 and the Local Authority Transfer Fund (LATF) A/c No. 1103867237. It was noted that the Council did not prepare bank reconciliation statements for its bank accounts as stipulated under paragraph F and J of the Local Authorities Financial Management Regulations, 2007 and paragraph 3.4.0 of the Treasurers Manual 2006. In the absence of bank reconciliation statements, the correct bank account balances may not be determined when handing over to the County Government. The cash books for these accounts should be reconciled with the bank statement balances in order to receive assurance over the balances taken over by the County Government.

4.3 Failure to maintain Debtors Records

It was observed that the former Council did not maintain a debtor's ledger with individual receivable accounts. It was not possible to confirm the existence of debtors who owe the Council funds in respect of staff imprest, staff advances, land rent and property rates. The failure to maintain a debtor' ledger is contrary to Treasurers Manual paragraph 3.1.0 which requires each Council to maintain a set of accounting registers and records that enable the preparation of accurate books of accounts, timely and reliable Abstract of Accounts and other reports. In this respect, there is a possibility of loss of funds due to lack of debtors' records. The County Government should cause these ledgers to be prepared on the basis of primary source documents in order to take up accurate debtors from the former council.

4.4 Failure to maintain Creditors Ledger

A summary list of creditors availed for audit shows that the former Council owed creditors Kshs.5,136,086.00 as at 31 March, 2013. However, the balance could not be confirmed since no records were maintained as required by Treasurer's manual paragraph 3.1.0 which provides that each Council should maintain a set of accounting registers and records that enable the preparation of accurate books of accounts, timely and reliable Abstract of Accounts and other reports. Under the circumstances, the correctness of the creditors' balances was not confirmed. The County Government should cause these ledgers to be prepared on the basis of primary source documents in order to take up accurate liabilities from the former council.

4.6 Expenditure - Missing Payment Vouchers

During the audit of expenditure receipts, management failed to avail for audit payment vouchers in respect of General Rate Fund (G.R.F) account amounting to Kshs.1,247,920.00 and Local Authority Transfer Fund (LATF) account Kshs.6,632,717.00 contrary to Section 37(i) of the Public Audit Act, 2003 which provides that the Auditor General shall have access to books, records, and other reports to which the audit relates. It was therefore not possible to verify what the funds were used for. Consequently, the propriety of the total expenditure of Kshs.7,880,637.00 is in doubt. Details and the necessary supporting evidence for the total expenditure of Kshs.7,880,637.00 should be provided to confirm authenticity of the expenditure.

4.7 Failure to Maintain an Assets Register

The former Town Council did not maintain a fixed assets register contrary to paragraph M (2) of the Local Authority Financial Management Regulations of 2007 which required Councils to maintain a perpetual record showing description of each asset item, date of acquisition, cost at the time of receipt and current value. Although a list of vehicles owned by the former Council with a total value of Kshs.9,210,000.00 was provided, the correctness of the balance could not be confirmed in the absence of the assets register. The County Government should ensure that the necessary details are obtained regarding the assets it is taking over from the former councils and open the assets register which it should update with correct and supportable information.

5.0 DEFUNCT COUNTY COUNCIL OF SAMBURU

5.1 Cash and Cash Equivalents

i) Status of the Bank Accounts

The defunct County Council of Samburu operated ten (10) bank accounts at Kenya Commercial Bank (7), Equity Bank (1), Co-operative Bank (1) and a Traders Sacco account. Five of the bank accounts were closed on 27 July, 2013 but the remaining five were indicated as being dormant and were not officially closed. Apart from the Main General Rate Funds account No. 110 4413345 maintained at the Kenya Commercial Bank, we were not provided with the respective bank statements/bank certificates and bank reconciliations. The balances that were transferred to the Samburu County Government Revenue account No.1140756516 which was opened on 1 April, 2013 also remain unknown. It is evident that the provisions of paragraph F and J of the Local Authorities Financial Management Regulations, 2007 and paragraph 3.4.0 of the Treasurers Manual 2006 on maintenance of records were contravened. Further, the delay to transfer of account balances to the County Government Revenue account is a breach of the Transitional Authority instruction as provided in circular reference TA/7/5/ (20) dated 12 February, 2013.

Under the circumstances, the balances transferred or to be transferred from the nine bank accounts upon handover in not verifiable without the necessary records and the County Government could lose funds in the process. The bank statements, bank certificates and bank reconciliations together with the respective cash books should be audited and certified correct prior to transfer of the account balances.

vii) Loss of cash in Fixed Deposit Account

Records that were presented for audit show that the defunct Samburu County Council opened a three months fixed deposit account at the Co-operative Bank, Nyahururu on 27 October, 1999 with an initial amount of Kshs.20,847,671.25 for which deposit receipt No.006100 was issued. Upon maturity, the account was severally rolled over at different deposit amounts up to 12 February, 2009 when a dispute arose regarding the exact Fixed Deposit receipt balance. Whereas the bank indicated that it was holding only Kshs.5,000,000.00 under the account vide a deposit receipt No. 018834, the County Council insisted that the particular receipt was for Kshs.18,500,000.00. Following the conflicting information, the matter was forwarded for Police investigations.

There was further evidence that the money in the fixed deposit account may have been irregularly used to provide guarantee to a private company. As at the time of audit in September, 2013, no cash had been recovered in respect of this account. Given the extent of time that has elapsed, and since the officers who were signatories to the account have already left the service of the local authority, the cash may be lost. It is recommended that the County Government takes up the matter with the relevant arms of government with a view to unraveling the mystery surrounding the deposit receipt and bring the culprits to account for the fraud.

5.2 Unconfirmed Banking of Revenue

According to the LAIFOMs generated revenue analysis and the list of bankings for the period 1 January and 30 June, 2013 revenue amounting to Kshs.122,204,253.00 was collected of which Kshs.7,479,582.00 only was recorded as having been banked. Further, the receipts cashier did not maintain a receipts cashbook reflecting the total daily collections and total daily banking together with a reconciliation thereof to explain any differences noted.
Consequently, it was not possible to confirm the position of the balance of Kshs.114,724,671. The unconfirmed balance is a huge amount for which the individuals who handled the revenue account should be called upon to provide details of banking.

5.3 Debtors

i) Ground Rent

A listing of debtors availed for audit indicated that the Council was owed an amount of Kshs.12,600,000 in respect of ground rent by the five hotels.

However, the Council did not maintain a debtors' ledger into which payments receipts would be recorded.

In the absence of the ledger that is properly updated, it was not possible to state the period to which these debts relate and confirm the accuracy of the balances provided. The County Government should cause the ledgers to be prepared on the basis of primary source documents in order to take up accurate debtors from the former council.

viii) Unsurrendered Temporary Imprest

Financial records held at the defunct County Council of Samburu revealed that as at 30 June, 2013 various officers had not accounted for temporary imprests totaling Kshs.10,999,323.00 According to statements generated from the LAIFOMS, some officers held multiple imprests that have remained outstanding since July 2011 contrary to Section 5.6.5 of Government Financial Regulation and Procedures which requires temporary imprest to be accounted for within 48 hours after the event. The Council did not also maintain an imprest ledger as required by clause 3.7.2(vii) of the Treasurers Manual.

Further, copies of the warrants were not availed to ascertain the purpose for which the imprests were issued. Although reminders have been written to imprest holders to surrender the balances, there was no evidence of a favourable response and it is likely that the funds may be lost. The imprest holders and those who approved multiple imprests should be made to account for the possible loss in unsurrendered imprest.

5.4 Current Liabilities

i) Unconfirmed Statutory Liabilities

A briefing statement Ref: SCC/GA: 11/26/11 dated 19 April, 2013 to the County Governor indicated that the defunct Council owed LAPTRUST Kshs.24,637,002.00 and the NSSF Kshs.7,730,600.00 total Kshs.32,367,602.90. Contrary to the statement, a demand notice Ref: LAPTRUST/8/4/40 of 11 April, 2013 from LAPTRUST indicated that the Council owed Kshs.11,256,173.30. Though there was no independent evidence to confirm the amount owed to the NSSF, it is likely that the Council records may reflect inaccurate balances since a creditors' ledger was not maintained to record details of the balances. The County Government should cause the ledgers to be prepared on the basis of primary source documents in order to take up accurate liabilities from the former council.

iii) Unconfirmed Contractors' Liabilities

A scrutiny of the financial records and correspondences indicated that there were outstanding debts of Kshs.10,743,118.00 in respect to contractors of capital projects.

However, supporting documents such as project files, contract agreements, and payment certificates were not availed in order to confirm the outstanding balances for the respective projects. The Work in Progress register was also not maintained. Therefore, the County Government may take over an inaccurate liability in respect of these contractors.
The County Government should cause the Work in Progress register to be prepared using certificates of work done and the relevant payment documents.

iv) Doubtful General Creditors Balance

A list of liabilities availed for audit indicated that the Council owed general creditors an amount of Kshs.9, 225,144.70. There was no ledger and primary records such as requisition notes, Local Purchase Orders (LPOs), delivery notes and invoices were not availed to support the outstanding credit balances. In the absence of these supporting documents, it was not possible to ascertain the accuracy of the creditors' balances of Kshs.9, 225,144.70. The County Government should cause the ledgers to be prepared on the basis of primary source documents in order to take up accurate liabilities from the former council.

5.5 Unconfirmed Motor Vehicle Repair and Maintenance Costs

It was noted that a motor vehicle registration no. KAV 302E Toyota Land cruiser with a current year revaluation amount Kshs.1,450,000.00 was repaired at a cost of Kshs.436,495.00 at a garage in Nakuru town. The payments were made vide payment voucher No. 1303-0113 for Kshs.179,624 and No. 1303-0112 for Kshs.256,871.00 both dated 14 March, 2013.
However, the Council did not keep logbooks to record repairs and maintenance for each vehicle as a control mechanism.

It was, therefore, not possible to ascertain from if the cost of repairs and maintenance of Kshs.436,495.00 was in respect of that particular vehicle, were necessary and indeed if the repairs took place. Each motor vehicle should have a logbook to keep track of repairs and maintenance that takes place for management decisions and accountability purposes.

Conclusion

From the foregoing audit findings, it is clear that the process of taking over of assets and liabilities of the defunct Local Authorities was not properly planned and organized. According to Transition to Devolved Governments Act, 2012, it was the responsibility of the Transition Authority to oversee the takeover of the functions, assets, liabilities and staff of the former Local Authorities by the County Governments after the 4 March, 2013 general elections.

Similarly, accordance to Section 194 of the PFMA, 2012, the Public Sector Accounting Standards Board is charged with the mandate of developing model accounting and reporting systems for the National Treasury which shall be adopted by the County Government in order to ensure standards applicable across the County Governments.

This had not been done. But in spite of these challenges, the County Governments should take control of functions, including revenue collection, recording and proper accounting for the same.

Detailed audit findings are contained in the main audit report herewith appended and I appeal to the County Governor to address all issues to each report.

Edward R.O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

6 March 2014