

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

REPORT

OF

THE AUDITOR–GENERAL

ON THE

FINANCIAL OPERATIONS

OF

THE COUNTY GOVERNMENT OF
TAITA TAVETA 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 TAITA TAVETA AND ITS DEFUNCT LOCAL AUTHORITIES FOR THE PERIOD 1 JANUARY TO JUNE 2013

1. EXECUTIVE SUMMARY

1.1 Introduction

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 The County Government Act, 2012 Section 134 (1) repealed the Local Government Act, Cap 265, and thus effectively dissolving all the 175 Local Authorities and creating 47 County Governments.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

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.

1.3 Key Audit Findings

1.3.1 County Executive

1.3.1.1 Non-current Assets

The County Government did not maintain a consolidated Asset Register of all the assets and inventory owned by the County Government including assets that were owned by the defunct Councils. In addition, the ownership of assets had not been transferred from the defunct Councils to the County Government. The Transition Authority should coordinate the transfer of the assets.

1.3.1.2 Procurement of Goods And Services

The County government directly procured computer equipment of Kshs.649,685.00 but there was no evidence provided to show that the Tender committee approved the procurement method used. Further, the County Government has not constituted an Inspection and Acceptance Committee as stipulated in the Procurement and Disposal Act, 2005. The responsible officers should be held to account for non-conformity with procedures.

1.3.2 Defunct Municipal Council of Voi

1.3.2.1 Current Assets And Liabilities

i) Cash and Bank

The five (5) Bank accounts that were being operated by Municipal Council of Voi were closed on 26 May, 2013 with a balance of Kshs.7,123,001.52 of which Kshs. 4,123,784.72 was transferred to County Government bank accounts leaving a balance of Kshs.2,999,216.80 still in the Council's accounts. The closure date was contrary to Transition Authority directive that required the local authorities to close the bank accounts by 28th February 2013. It was also revealed that bank reconciliations for these bank accounts was not done.

The County Government should carry out bank reconciliation of all the defunct local authorities' bank accounts to determine the correct balance to have been transferred to County Government banks.

ii) Creditors

The defunct Council transferred creditors of Kshs.13,593,742.00 as at 28 February 2013 to the County Government as indicated in the status report. Further no, documentary evidence was availed to support liabilities of Kshs.2,480,726.00 in favor of two suppliers for hardware items supplied to the defunct Municipal Council. The County Government should carry out an investigation on the liability and write off the balances where no evidence of the ordering and delivery is available.

iii) Debtors

The debtors' list indicated a debtors' balance of Kshs.80,059,445.00 as at 27 May 2013. There were no records of rate payers to show that they were all captured for

billing. The County Government should reconcile the debtors' ledger against inventory of the defunct Council's rate payers.

1.3.2.2 Non-Current Assets

Audit review of motor vehicles indicated that lost log books for motor vehicles KWE 104 and KAB 338Q had not been replaced by the time of audit. In addition, motor cycle registration no. KMCW 732F was registered in the name of the supplier General. The County Government should expedite transfer of the vehicle ownership to the County Government's name.

1.3.2.3 Revenue

A surprise check conducted at the Bus Park on 09 September 2013 indicated that a total of Kshs.108,525.00 revenue collected on 6 September 2013 had not been banked by 9 September 2013. In addition, revenue collection of Kshs.19,239,824.00 for the month of May 2013 was not banked and transferred to the County Revenue Fund Account. The County Government should ensure revenue collected is banked promptly and intact into the Revenue account at the sub-counties and transferred to the County Revenue Funds. The County government should hold the responsible officers to account for the under-banking.

1.3.2.4 Expenditure

Amounts totalling Kshs.26,386,976.00 were spent by the defunct Municipal Council for the period March 2013 to May 2013 without the necessary required approvals from the Controller of Budget. All future payments should be duly authorized with the relevant support documents. The responsible officers should be held to account for irregular expenditures.

1.3.3 Defunct County Council of Taita Taveta

1.3.3.1 Handing Over

There was no evidence of official handing-over as this was not facilitated by the office of the Transition Authority as per Transition to Devolved Government Act, 2012.

The County Executive should prepare a complete report on the status of the defunct Council while Transition Authority should facilitate the official hand-over to County Government as guided by the Transition to Devolved Government Act, 2012.

1.3.3.2 Current Assets And Liabilities

i) Cash and Bank

Bank accounts of the defunct County Council were closed on 26 May 2013 and a total of Kshs.26,459,921.00 transferred to the County Government Bank accounts. No bank reconciliations statements had been prepared.

The County Executive should ensure that bank reconciliations statements for all the defunct council's bank accounts are prepared, and correct balances transferred to the County Bank accounts.

ii) Creditors

The defunct Council's status report indicated that the defunct County Council had a liability balance of Kshs.30,002,442.00. The County Government should expedite repayment of the long outstanding loans to avoid incurring unnecessary penalties and interest.

iii) Debtors

Audit review indicated that records of rate payers were not maintained hence it was not possible to confirm the accuracy of Kshs.45,186,102.00 as indicated in the handing over report. The County Government should map out all rate-payers within the Sub-County and ensure that all rate payers are correctly charged.

1.3.3.3 Non-Current Assets

The Council's Asset Register listed 1,206 parcel of land as owned by the Council. However, only 204 ownership documents were availed for audit verification. 1,002 parcels did not have title deeds and ownership had not been transferred to the County Government.

County Government should ensure the assets have been transferred from the defunct councils.

1.3.3.4 Revenue

Revenue collection in the month of April and May 2013 was Kshs.4,336,812.00 and Kshs.1,808,489 respectively representing a decline of 58%. Further, during this period, revenue was being recorded manually as LAIFOMS had failed. In addition, Kshs. 15,928,399.00 collected in the months of March to May, 2013 was not banked and transferred to County Revenue Fund account.

The County Government should investigate the reason for decline in revenue and the failure of LAIFOMS and confirm how the unbanked revenue was utilized.

1.3.3.5 Expenditure

Kshs.10,003,869.00 was spent by the defunct County Council for the period March 2013 to May 2013 without the necessary approvals. The County Government should investigate expenditure during the transition period.

1.3.4 Town Council of Taveta

1.3.4.1 Handing over

There was no evidence of official hand over of defunct council's assets, liabilities and staff to the County Government. However, there was an interim report prepared by the defunct council on the status.

The Transition Authority should coordinate the handing over of assets, liabilities and staff of the defunct Council to the County.

1.3.4.2 Current Assets and Liabilities

i) Cash and Bank

Six (6) out of ten (10) defunct Town Council bank accounts, were closed in May 2013 while four bank accounts were still operational as at the time of the audit. The employees of the defunct Council were still the signatories to these accounts as at the time of audit. No bank reconciliation statements were prepared. The County Government should ensure that all defunct Council's bank accounts are closed and balances transferred to County Government's bank accounts without delay.

ii) Creditors

Out of Kshs.30,002,442.00 indicated as outstanding liability only Kshs.19,243,520.00 was analyzed.

The County Government should review all liabilities transferred from the defunct councils and ensure only liability for authorized cost of services rendered and goods delivered is recognized.

iii) Debtors

The debtors' balance of Kshs.59,126,971 as at 28 February 2013 was not supported by a list of rate payers and plot numbers. A list of all the rate payers should be obtained and reconciled to the debtor's ledger.

1.3.4.3 Non-Current Assets

Out of the parcels of land listed on the Asset Register, only two (2) Allotment Letters for the bus park were availed for verification while two vehicles were not in the name of the defunct Council. All defunct Council's properties should have title documents which should be transferred into County Government's name.

1.3.4.4 Revenue

Revenue collection of Kshs.15,957,903.00 for the months of March to May, 2013 was not banked and transferred to County Revenue Fund account. The County Government should investigate how revenue collected was spent.

1.3.4.5 Expenditure

Payment to various suppliers were not supported. Unsupported payments should be investigated for impropriety.

1.3.5 Information Systems Assessment

i) Hardware

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

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

IFMIS has been installed in the County with only the budget module operational.

The County had received one computer from The National Treasury which is dedicated for G-Pay though payments are still processed manually. The process of computerization should be expedited.

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

LAIFOMS analysis of the Revenue collected and banked revealed that there was total under banking of Kshs.910,610.00 in the three defunct authorities.

iv) Integrated Payroll and Personnel Database (IPPD)

The County has fully installed the IPPD system and began processing the County payroll from July 2013 with some noted errors on Tax PIN and date of birth. Responsible personnel should review the uploaded data and make the appropriate corrections.

ICT Governance and IT Control Environment

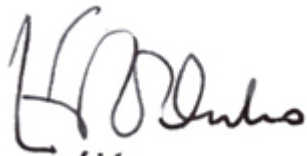
The IT section has five staff who do not have clearly defined roles and responsibilities on how to oversee the ICT operations in County Government Office.

The ICT County staff have also not been trained in the applications in place so as to offer the necessary support.

1.4 Conclusion

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



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Auditor-General

Nairobi
March 2014

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

1. MAIN REPORT

1.1 Introduction

The County Government of Taita Taveta replaced three defunct Local Authorities namely; Municipal Council of Voi, County Council of Taita Taveta and Town Council of Taveta. It was established after the 4 March 2013 elections to carry out the devolved functions set out in the Constitution of Kenya.

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

1.2 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 Government. In this regard the office planned an audit for the County Government of Taita Taveta with the following terms of reference:

- a) Verification of cash and bank transactions held at various different accounts in the defunct local authorities during the period of transition between 5 March and 30 June 2013.
- b) Examination of transactions of defunct Local Authorities between 01 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 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 04 March 2013;
- j) IPPD Payrolls – Ghost workers in payroll.
- k) Irregular borrowings, overdrafts and payment of non-existing loans.

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

1.3 Methodology

The approach used in carrying out the 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 resolutions affecting management of cash.
- Physical inspection/Verifications.
- Verify the Bank Reconciliation Statements as at 30 June 2013.

2. DETAILED FINDINGS

2.1 County Executive

2.1.1 Non – Current Assets

The Assets of the defunct local authorities had not been transferred to the County Government while documents of ownership were still in the custody of the defunct councils. Further, the County Government did not maintain a consolidated Asset Register of all the assets and inventory owned by the County Government including assets that were owned by the defunct councils. In addition, out of the three (3) motor vehicles purchased by the County Government, log books for two (2) vehicles; Toyota Prado (KBU 699T) and Toyota Hilux Double Cabin Pick Up (KBU 700T) were not availed for verification.

Recommendations

The County Government should review Asset Registers of the defunct councils and consolidate into a County Government Asset Register. The Asset Register should clearly list each item and separate various categories of assets in accordance with the accounting standards.

The County Government should expedite transfer of ownership of all properties including documents registered in the defunct councils' or other names to County Government's name to minimize the risk of losing such properties due to illegal transfers.

Additionally, the County Government should apply for replacement of any lost land title deeds and log books from the relevant Government agencies.

2.1.2 Procurement of Goods and Services

Three (3) laptops and three (3) smartphones costing a total Kshs.649,685.00 were procured using direct procurement method. There was no evidence that the Tender Committee approved the procurement method and no justification was provided.

The County Government had no Inspection and Acceptance Committee put in place. Hence the goods purchased were received without the report from the Inspection and Acceptance Committee.

Recommendations

The County Government should ensure that all procurements comply with Public Procurement and Disposal Act. The Procurement Department should seek approval of the Tender Committee where direct method of procurement is to be used.

An Inspection and Acceptance Committee should be formed to inspect goods supplied and services rendered before payment is made to ensure that suppliers/services providers deliver as per the order/contract terms. This shall minimize the chance of paying for under-delivered goods or inferior services.

2.2 Municipal Council of Voi

2.2.1 Cash and Bank

Bank accounts operated by the defunct local authorities were to be closed by 28 February 2013 and that there was to be a smooth and seamless transfer of cash and bank balances to the County Government. Consequently, the County Government was to open bank accounts at sub-county's where revenue collections were to be banked and transferred to County Revenue Fund account.t

Audit review revealed that five (5) Bank accounts operated by the defunct Voi Municipal Council were closed on 26 May 2013 with a balance of Kshs.7,123,001.52 of which Kshs.4,123,784.72 was transferred to County Government bank accounts leaving a balance of Kshs.2,999,216.80 still in the council accounts.

Further, Bank reconciliations were not prepared for all the bank accounts held by the Municipal Council.

The Generate Rate Fund-current account balance of Kshs.2,999,216.80 held at Co-operative Bank was not closed and its balance transferred to County Government account.

Recommendations

The County Government should ensure that cash books are maintained and bank reconciliations prepared on a timely basis, checked and approved as per Public Finance Management 2012, Act.

The County Government should adhere to the Public Financial Management Act (PFM), County Appropriation Act and other related legislations before it incurs expenditure.

2.2.2 Non- Current Assets

All assets of the defunct Town and County Councils including motor vehicles, office equipment and furniture were to be transferred to the County Government. However, properties of the defunct Council had not been transferred to County Government as at the time of the audit. Further, lost log books for motor vehicles KWE 104 and KAB 338Q had not been replaced as at the time of audit. In addition, motor cycle registration no. KMCW 732F was registered in the name of the supplier. There was no evidence of loan facility with the supplier.

Recommendations

The County Government should expedite transfer of ownership including Accounts of all properties registered in the defunct councils' or other names to County Government's name to minimize the risk of losing such properties due to illegal transfers.

Additionally, the County Government should apply for replacement of any lost land title deeds and log books from the relevant Government agencies.

The County Government should review Asset Registers of the defunct councils and consolidated into a County Government Asset Register. The Asset Register should clearly list each item and separate various categories of assets in accordance with the accounting standards.

2.2.3 Creditors

The defunct Council transferred total liability of Kshs.13,593,742.00 as at 28 February 2013 to the County Government as indicated in the status report.

However, Local Purchase Orders and Goods Received Notes amounting to Kshs.2,480,726.00 were attached on invoices of two suppliers who had supplied hardware items to the defunct Municipal Council.

Recommendations

The County Government should review all liabilities transferred from the defunct councils and ensure only authorized cost of services rendered and goods delivered are recognized in County Government's books.

All unsupported claims should be investigated and ensure responsible officers are held accountable for goods/services not authorized or goods not delivered and services not rendered.

The County Government should put in place a policy on settlement of liabilities to ensure that all debts are serviced in a uniform manner to avoid biasness in settlement of liability.

2.2.4 Debtors

All defunct councils' operational debtors were to be transferred to the County Government.

The debtors' list indicated a debtors' balance of Kshs.80,059,445.00 as at 27 May 2013. However, there were no records for rate payers to support the balance.

Recommendations

The County Government should review LAIFOMS database to ensure all plots within the County Government are captured and billed. The accounts receivables should be reconciled to reflect correct balances transferred to the County Government's books of accounts. Efforts should be made to collect long outstanding debts.

County Executive should explore the possibility of waiving penalties on Land rates to enable rate-payers to clear their accounts.

2.2.5 Revenue

County Governments were required to open and maintain revenue collection bank accounts at sub-counties where revenue receipts were to be banked intact and transferred directly to County Revenue Fund account that was to be opened either at KCB or Central Bank of Kenya. According to the County Appropriation Act, County Revenue Funds can only be withdrawn upon request of the County Treasurer and authorized by the Controller of Budget.

Audit review revealed that revenue collection of Kshs.19,239,824.00 for the month of May 2013 was not banked and transferred to the County Revenue Fund Account. Further, Casuals, Cleaners and Watchmen were used for revenue collection. In addition, a surprise check conducted at the Bus Park on 09 September, 2013 indicated that a total of Kshs.108,525.00 revenue collected on 6 September 2013 had not been banked by 9 September 2013. Additionally, there was an unexplained deficit of Kshs. 18,715.00 from the cash count.

Recommendations

The County Government should comply with all the relevant legislations which require all county revenues to be banked promptly and intact into the Revenue Collection accounts at sub-counties and transferred to County Revenue Fund account at KCB/CBK.

The County Government should always seek approval of the Controller of Budgets before committing funds to other Vote heads.

Direct spending should not be made from revenue collections without prior approval of the Controller of Budgets.

The County Government should explore the possibility of utilizing current technology e.g. Money transfer (M-pesa) or Bank Agents for sub-counties where there are no commercial banks.

The County Government should explore means of contracting skilled personnel for revenue collection. Also, Revenue collection could be outsourced to reputable institutions such as KRA, Banks, Post Office to improve collection, efficiency and accountability.

Late banking and revenue shortage reported at Voi Bus Park on 9 September 2013 should be investigated.

2.2.6 Expenditure

All expenditure should be recorded and properly accounted for during the transition period. All County Government expenditures must be authorized by the Controller of Budgets.

Audit verification revealed that amounts totaling Kshs.26,386,976.00 were spent by the Municipal Council for the period March 2013 to May 2013 without the necessary approvals.

Recommendations

All expenditure which was not authorized should be investigated and responsible officers should be held to account. All future payments should be duly authorized with relevant support documents.

2.3 County Council of Taita Taveta

2.3.1. Handing Over

Section 7 (2) (e and g) of the Transition to Devolved Government Act, 2012, required the defunct local authority to prepare a handing over status report listing all the assets, liabilities and staff of the local authority held as at 28 February 2013 to be transferred to the County Government. The exercise was to be coordinated by the office of Transition Authority.

Although a status report was prepared on 26 February 2013, there was no evidence of official handing-over. The hand-over was not facilitated by the office of the Transition Authority as Per the Transition to Devolved Government Act, 2012.

Recommendations

The County Government should consult the office of Transition Authority to facilitate handing-over.

2.3.2. Cash and Bank

The Transition Authority required that Bank accounts operated by the defunct local authorities be closed by 28 February 2013 and cash and bank balances be transferred to the County Government. However, Bank accounts of the defunct County Council were closed on 26 May 2013 and a total of Kshs.26,459,921.05 transferred to County Government Bank accounts. Further, no bank reconciliations were prepared for the period before bank accounts were closed and balances transferred to County Government. In addition, no cash count was performed for cash held in the office. Also no cash book was maintained after the LAIFOMS system failed. Payments were recorded on manual registers. Cheque books counterfoils were not availed for audit verification.

Recommendations

The County Government should prepare bank reconciliations of all the bank accounts for the months they were in operation to ensure accuracy of bank balances transferred to County Government's bank account.

The County Government should ensure that cash books are maintained and bank reconciliations prepared on a timely basis, checked and approved as per Public Finance Management 2012 Act.

An immediate investigation into the circumstances surrounding return and destruction of cheques and counterfoils of defunct County Council of Taita Taveta should be instituted.

2.3.3. Non-Current Assets

All Assets of the defunct Council including motor vehicles, office equipment and furniture were to be transferred to the County Government.

The Council's Asset Register listed 1,206 parcels of land as owned by the Council. However, only 204 ownership documents were availed for audit verification. The balance of 1,002 parcels did not have titles.

Further, the defunct Council had nine (9) motor vehicles and three (3) motor cycles. However, two (2) motorcycles acquired in the year 2013 did not have log books. In addition, Computers, equipment and furniture were not listed (itemized) on the Asset Register but were grouped per location. Also, furniture that used to be in the defunct Council Chambers could not be traced after the Chamber was converted into County Assembly and new furniture acquired.

Recommendations

The County Government should review Asset Registers of the defunct councils and consolidated into a County Government Asset Register. The Asset Register should clearly list each item and separate various categories of assets in accordance with the accounting standards.

The County Government should expedite transfer ownership of all properties including documents registered in the defunct councils' or other names to County Government's name to minimize the risk of losing such properties due to illegal transfers.

Additionally, the County Government should apply for replacement of any lost land title deeds and log books from the relevant government agencies.

2.3.4. Debtors

A status report prepared as at 28 February 2013 indicated a debtors' balance of Kshs. 45,186,102, which included balanced relating to Property Rates Kshs.9,376,225.00, Plot Rent Kshs.6,098,093.00 and Graduated Area Rates of Kshs.2,434,135.00. However, records of rate payers was not maintained or updated as required.

Recommendations

The County Government should review LAIFOMS database to ensure all plots within the County Government are captured and billed. The accounts receivables should be reconciled to reflect correct balances transferred to the County Government's books of accounts.

Efforts should be made to collect long outstanding debts.

County Executive should explore the possibility of waiving penalties on Land rates to enable rate-payers to clear their accounts.

2.3.5. Creditors

The status report prepared as at 28 February 2013 indicated that the defunct County Council had a liability of Kshs.30,002,442.00 which includes Kshs.21,465,519.00 NHC loan acquired in 1992 and 2002 whose total repayment as at 2013 was Kshs. 24,763,326.00. Other liabilities included LAPTRUST (Kshs.4,221,623.00) and Kshs. 4,315,300.00 for two (2) contractors.

Recommendations

The County Government should review and reconcile all liabilities transferred from the defunct councils and ensure only authorized cost of services rendered and goods delivered are recognized in County Government's books.

The County Government should put in place a policy on settlement of liabilities to ensure that all debts are serviced in a uniform manner to avoid biasness in settlement of liability.

The County Government should settle the outstanding arrears for NHC and CBA salary arrears.

2.3.6. Revenue

County Governments were required to open and maintain revenue collection bank accounts at sub-counties where revenue collections were to be banked intact and transferred directly to County Revenue Fund account that was to be opened either at KCB or Central Bank of Kenya. Additionally, County Governments were expected to put in place proper controls to ensure all revenues are collected and accounted for.

Audit verification revealed that revenue collection recorded a 58% decline in the month of May 2013 (Kshs.1,808,489.00 from Kshs.4,336,812.00 in April 2013 when the Sub-County started recording revenue manually. Further, revenue was manually recorded from the month of May 2013 when LAIFOMS was reported to have failed. In addition, revenue collection of Kshs.15,928,399.00 for the months of March to May, 2013 was not banked and transferred to County Revenue Fund account.

Recommendations

The County Government should comply with all the relevant legislations which require all county revenues to be banked promptly and intact into the Revenue Collection accounts at sub-counties and transferred to County Revenue Fund account at KCB/CBK.

Direct spending should not be made from revenue collections without prior approval of the Controller of Budgets.

The County Government should explore the possibility of utilizing current technology e.g. Money transfer (M-pesa) of Bank Agents for sub-counties where there are no commercial banks.

County Government should investigate LAIFOMS failure at County Council of Taita Taveta and appropriate disciplinary measures should be applied where there is evidence of officers having sabotaged the system for person gains.

The County Government should explore means of contracting skilled personnel for revenue collection.

Revenue collection could be outsourced to reputable institutions such as KRA, banks, Post Office to improve collection, efficiency and accountability.

2.3.7. Expenditure

All expenditure should be recorded and properly accounted for during the transition period. That County Government expenditure must be authorized by the Controller of Budgets.

Further, Audit review revealed that payments were recorded manually from the month of December, 2012. Kshs.10,003,869.00 was spent in the period March 2013 to May 2013 without the necessary approvals.

Used and unused cheques books were reported to have been returned and destroyed by the bank after closing the bank accounts.

Recommendations

All expenditure which was not authorized should be investigated and responsible officers held to account. All future payments should be duly authorized with relevant support documents for audit trail.

The County Executive should review payments made during the transition to ensure that approval of the County Government was obtained for any payment/cost incurred by the defunct councils.

2.4 Town Council of Taveta

2.4.1. Handing Over

Section 7 (2) (e), (g) of the Transition to Devolved Government Act, 2012, required the defunct local authority to prepare a handing over status report listing all the assets, liabilities and staff of the local authority held as at 28 February 2013 to be transferred to the County Government. The exercise was to be coordinated by the office of Transition Authority.

Although, a status report was prepared on 02 May, 2013 on the status of the defunct Town Council, there was no evidence that the office of Transition Authority facilitated the hand-over process. There is no evidence of official transfer of assets, staff and liabilities.

Recommendations

The County Government should consult the office of Transition Authority to facilitate handing-over.

2.4.2. Cash and Bank

The Transition Authority required that Bank accounts operated by the defunct local authorities be closed by 28 February 2013 and cash and bank balances transferred to the County Government.

Audit review revealed that six (6) out of ten (10) bank accounts operated by the defunct Town Council, were closed in May 2013 and a balance of Kshs.33,912.45 transferred to County Government bank accounts. The remaining Four (4) bank accounts were still operational as at the time of the audit. The employees of the defunct council were still the signatories to these accounts as at time of audit.

Further, no bank reconciliation statements were prepared. In addition, the Council made payments amounting to Kshs.10,003,869.00 from the bank accounts.

Recommendations

The County Government should prepare bank reconciliations of all the bank accounts for the months they were in operation to ensure accuracy of bank balances transferred to County Government's bank accounts.

The County Government should ensure that cash books are maintained and bank reconciliations prepared on a timely basis, checked and approved as per Public Finance Management 2012 Act.

2.4.3. Non- Current Assets

All Assets of the defunct Town Council including motor vehicles, office equipment and furniture were to be transferred to the County Government.

Out of the parcels of land listed on the Asset Register, only two (2) Allotment Letters for the bus park were availed for verification. Ownership documents for the other parcels including the New Town were not availed.

Amongst the motor vehicles listed on the Asset Register was a Ford Ranger, KBR 946K which was not in the name of the Town Council.

Recommendations

The County Government should review Asset Registers of the defunct councils and consolidated into a County Government Asset Register. The Asset Register should clearly list each item and separate various categories of assets in accordance with the accounting standards

The County Government should expedite transfer ownership of all properties including documents registered in the defunct councils' or other names to County Government's name to minimize the risk of losing such properties due to illegal transfers.

Additionally, the County Government should apply for replacement of any lost land title deeds and log books from the relevant government agencies.

2.4.4. Creditors

The defunct County Council indicated total liability of Kshs.19,243,520.00 as per creditors' listing provided.

The liability related to among others:

- KIMSA dues of Kshs.2,008,000.00
- CBA salary arrears of Kshs.7,288,657.00
- Supplier's arrears of Kshs.357,900.00
- Unremitted payroll deductions of Kshs.3,886,038.00

However, some of the liabilities were not supported with Local Service Orders.

Recommendations

The County Government should review all liabilities transferred from the defunct councils and ensure only authorized cost of services rendered and goods delivered are recognized in County Government's books.

All unsupported claims should be investigated.

The County Government should put in place a policy on settlement of liabilities to ensure that all debts are serviced in a uniform manner to avoid biasness in settlement of liability.

Unremitted payroll deductions should be remitted immediately as may continue attracting penalties and interest.

2.4.5. Debtors

All defunct councils' operational debtors were to be transferred to the County Government. The Town Council reported a debtors' balance of Kshs.59,126,971.00 as at 28 February 2013. However, Three (3) different rates payers were registered and paid a total of Kshs.116,320.00 for plot number 5060. Further, there was no clear record to show that all plots within the town council were captured and billed regularly.

Recommendations

The County Government should review LAIFOMS database to ensure all plots within the County Government are captured and billed. The accounts receivables should be reconciled to reflect correct balances transferred to the County Government's books of accounts.

Efforts should be made to collect long outstanding debts.

County Executive should explore the possibility of waiving penalties on Land rates to enable rate-payers to clear their accounts.

2.4.6. Revenue

County Governments were required to open and maintain revenue collection bank accounts at sub-counties where revenue receipts were to be banked intact and transferred directly to County Revenue Fund account that was to be opened either at KCB or Central Bank of Kenya.

Additionally, County Governments were expected to put in place proper controls to ensure all revenues are collected and accounted for.

Audit verification revealed that revenue collection of Kshs.15,957,903.00 for the months of March to May, 2013 was not banked and transferred to County Revenue Fund account. Further, the revenue collectors had LAIFOMS system access rights.

Recommendations

The County Government should comply with all the relevant legislations which require all county revenues to be banked promptly and intact into the Revenue Collection accounts at sub-counties and transferred to County Revenue Fund account at KCB/CBK.

The County Government should explore the possibility of utilizing current technology such as Money transfer (M-Pesa) or Bank Agents for sub-counties where there are no commercial banks.

There should be proper segregation of duties in the revenue cycle. Revenue collectors should not have LAIFOMS access rights to minimize chances of such staff manipulating the data.

2.4.7. Expenditure

All expenditure should be recorded and properly accounted for during the transition period. Audit verification indicated that payments to suppliers were not supported.

Recommendations

All expenditure which was not authorized should be investigated and responsible officers held to account.

The County Executive should review payments made during the transition to ensure that approval of the County Government was obtained for any payment/cost incurred by the defunct councils.

2.5 Information Systems assessment

2.5.1. Computers and Accessories

The County had received nineteen (19) computers, eleven (12) special orange CDMA modems, 19 UPSs and one (1) 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. Further there was no ICT register

The County is in the process of setting a data center (server room) at the headquarters. However the previous councils' (Voi Municipal and County council of Taita Taveta county and Taveta town Council) have servers which are still being used for LAIFOMS. A physical inspection of the data center indicated that it does not have adequate physical and environmental controls. Some of the controls lacking include reinforced physical doors, air conditioning systems, smoke detectors and fire extinguishers.

2.5.2. Network connectivity

There is no established Wide Area Network at the County to connect the various Sub-County offices. There is a Local Area Network at the former Taveta Town Council, former Municipal Council of Voi, and County Council of Taita Taveta offices.

2.5.3. 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

2.5.3.1. IT organization structure

The county IT department has five (5) personnel but there are no defined roles and responsibilities on how to oversee the IT operations hence there is no clear segregation of duties.

2.5.3.2. Non-training of ICT staff on applications in place

Our interview with the ICT staff at the county revealed that they have not been trained on the applications that are in place at the county. The ICT staffs have not been trained on IFMIS and IPPD and therefore they could not offer the necessary ICT support to users as it is required.

2.5.3.3. Staff Training on IFMIS

Eighteen (18) officers of the County have been formally trained on IFMIS at Kenya School of Government (KSG). However only ten (10) users have rights of access to the system in different modules which include invoicing, accounts payable, procurement, validators and approvers.

2.5.3.4. IT Budget

The county doesn't have a specific IT budget. However, each county department has an ICT component in their budget.

2.5.4. 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 was poor hence it was not possible for the county to use IFMIS although the issue has been rectified by Orange installing a base transition station and installing a fixed data in the county offices. Currently, all payments are done manually by use of cheques.

The County had received one computer from The National Treasury which is dedicated for G-Pay. Training for G-Pay had been undertaken for eight (8) officers and all have access to the system.

2.5.5. Integrated Personnel and payroll Database (IPPD)

The County has fully installed the IPPD system and the payroll beginning July 2013 was processed using the system. There is one (1) trained user and one administrator who is the manager in charge. Analysis of the complement and payroll revealed the followed:

2.5.5.1. Officers with Invalid pin

Analysis of the county complement data revealed that there were seven (7) officers with invalid tax pin.

2.5.5.2. Difference in dates of birth

Comparison of the IPPD complement data and LAIFOMS human resource data revealed that five (5) officers had different dates of birth in both systems.

2.5.6. LAIFOMS

LAIFOMS had been installed in all three (3) former councils, namely County Council of Taita Taveta, Town Council of Taveta and Municipal Council of Voi. Beginning 1 July 2013, the Budget was prepared through IFMIS deactivating the Expenditure Module in LAIFOMS.

A review of the system at the councils revealed the following:

There was under banking/ overbanking of Kshs.910,681.00 as follows:

	1st July 2012 to 4th March 2013	4th March 2013 to 30th June 2013	Total Under/(Over)banking
Taita taveta	5,557,090.00	9,176,572.00	14,733,662.00
Voi	703,244.00	(71,002.00)	632,242.00
Taveta	110,770.00	(14,565,993.00)	(14,455,223.00)
	6,371,104.00	(5,460,423.00)	910,681.00

The result of this was explained as failure to be keen on use of the system when doing revenue collections and banking.

Recommendations

- 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 management should ensure that all revenue collected and banked should be captured in the LAIFOMS so that timely reconciliation can be done
- 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 payroll data in IPPD needs to be cleansed to ensure accurate information is captured.
- Treasury should provide support and stable network to ensure smooth operations of the county.
- The county should implement the use of IFMIS to ensure transparent, effective and efficiency in managing county finances and standardized financial reporting.
- The county should consider having an independent IT budget to ensure the department is able to carry out its mandate effectively.

Conclusion

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

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

Edward R. O. Ouko, CBS
Auditor-General

Nairobi

3 March 2014