REPUBLIC OF KENYA

KENYA NATIONAL AUDIT OFFICE

REPORT

OF

THE AUDITOR–GENERAL

ON THE

FINANCIAL OPERATIONS

OF

THE COUNTY GOVERNMENT OF KWALE 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 COUNTY GOVERNMENT OF KWALE AND ITS DEFUNCT LOCAL AUTHORITIES FOR THE PERIOD 1 JANUARY TO 30 JUNE 2013

EXECUTIVE SUMMARY

1.0 Introduction

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 Further, the County Government Act, 2012 Section 134 (1) repealed the Local Government Act, Cap 265, and thus effectively dissolving all the 175 Local Authorities and creating 47 County Governments.

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

1.1 Audit Objectives

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

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

1.1.2 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.
This summary of our findings should be read in conjunction with the full report.

1.2 Summary of key findings

1.2.1 County Executive and County Assembly

1.2.2 Current assets and liabilities

Cash and Bank

Cash books were not maintained in the Local Authorities Integrated Financial Operations Management Systems (LAIFOMS). Payments were recorded on a manual register while revenue was recorded in Local Authorities Integrated Financial Operations Management Systems (LAIFOMS). The bank reconciliation had not been prepared for the period before the bank accounts were closed. Dishonored and stale cheques were not reversed in the cash books.

After 28 February, 2013, the defunct County Council of Kwale made payments amounting to Kshs.87,307,843.00 from the bank accounts. There was no evidence that cash receipts amounting to Kshs.762,040.00 as at 4 April, 2013 had been banked or transferred to Kwale County Government books; Bank accounts of the defunct Town Council and County Council were closed on varying dates between 3 June 2013 and 6 July 2013 and the balances transferred to County Government bank accounts. Dishonored and stale cheques were not reversed in the cash books.

- Bank reconciliations should be prepared for all the months before account closure to determine the correct cash book balance.
- Cash books should be reviewed and any stale cheques should be reversed from the cash book.
- Cash collections not banked should be investigated and responsible staff should be held to account.

1.2.3 Revenue

The defunct Town and County Councils of Kwale continued to operate their respective General Rate Fund accounts, Renewal, Projects and Local Authorities Transfer Fund LAFT bank accounts until they were closed on varying dates between 3 June 2013 and 6 July 2013.

There was direct spending of Kshs.2,886,958.00 in the months of April to June, 2013 from the KCB Revenue Collection account instead of being swept to

County Revenue Collection Fund account. From a sample verified, revenue collections amounting to Kshs.6,882,442 was banked in Salaries account for payment of staff salaries.

1.3 County Council of Kwale

1.3.1 Handing Over during Transition

We were presented with a report prepared by the former Town clerk on 26 February, 2013 addressed to the County Governor with details on the status of the defunct County Council as at 26 February, 2013. However, there was no evidence that the handing-over was facilitated by the Transition Authority as per the County Transition Act. In addition, the County Council report did not disclose the balance of debtors as at the transition time. The Transition Authority should arrange for proper handing over of assets, liabilities and staff of the defunct Council to the County Government to enable the County Government have a basis of opening balances to be reflected in its books of account.

1.3.2 Non-current Assets

A total of 113 parcels of land as follows: 27 in Lungalunga, 14 in Msambweni, 11 in Matuga, 27 in Kubo and 34 in Kinango had no title deeds. 1,906 hectares of land in Maveche and a total of 37.65 hectares at: Vikunduni, Mwachada, Mbwaleni, Riakalwa, Gulanze, Luwanga and Samburu were not included in the asset register. Original title deeds for Diani Complex/902 (Ukunda Show Ground) and Kwale /Shimba/458 were not availed for verification.

Assets procured by the County Government including motor vehicles were not in the fixed asset register. 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. Ownership of the assets had not been transferred to the County Government while documents of ownership were still in the custody of the defunct councils officers.

The County Government should take stock of all its assets and ensure that a master Fixed Assets Register is maintained which should clearly indicate values and locations of all its assets. Ownership documents for all assets should also be obtained. Transfer of ownership from the defunct councils to the county Government should commence immediately.

1.3.3 Current assets and liabilities

i) Creditors

Contradicting creditors' ending balance was provided as follows: Kshs.7,803,730 and Kshs.13,054,662 as per handing-over report and creditors' schedule

respectively. Cheques amounting to Kshs. 13,495,462 were outstanding in the bank reconciliation as at 28 February, 2013. Unremitted payroll deductions totaling Kshs.921,290 were reported as outstanding liability as at 28 February, 2013.

The Transition Authority did not verify liabilities of the defunct Councils to ensure that only authorized and supported balances were transferred to the County Government.

The County Government should independently verify all creditors' balances before any payment is made.

ii) Debtors

Kwale County Council handing–over report prepared on 26 February, 2013 did not disclose amount of outstanding debtors transferred to County Government. Some dishonored cheques received from rate payers were not reversed in the Council's books of accounts.

The County Government should prepare an inventory of all the its debtors and reconcile them to ensure the balances are correct and all have been captured.

1.3.4 Expenditure / Procurement

Spare parts worth Kshs.103,000 were purchased through imprest. The cash purchases of spare parts via PV no. 1209 – 0117 were not supported with requisition notes and LPOs.

The County Government was allocated Kshs.61,592,200 for construction of the Governor's residence. Out of the above allocation, Kshs.11,893,192/- was paid on 30/06/2013 to unrelated contractors. By the time of audit, Kshs.9,215,605 out of the unspent balance of Kshs.41,000,000 had not been returned to Central Bank of Kenya (CBK). The Governor's residence was therefore not constructed as intended. The County Government should investigate payments for unapproved costs and hold the responsible officer to account. The unspent funds should be transferred back to Treasury in compliance with Public Finance Management (PFM) regulations.

1.4 Town Council of Kwale

1.4.1 Handing Over- During Transition

According to a report prepared by the Interim Deputy Head, Human Resource on 2 May, 2013 on the status of the defunct Town Council as at 28 February, 2013 addressed to the County Governor, there was no evidence that the Transition Authority facilitated the handing-over process.

The County Government should request the Transition Authority to ensure proper handing over of assets, liabilities and staff of the defunct Council to the County Government.

1.4.2 Non –current Assets

Parcels of land valued at Kshs.195,400,000 did not have title deeds as per the Asset Valuation carried out in the financial year. Land was not separated from buildings in the Assets Register. Out of the three (3), motor vehicles owned by the Town Council, logbooks for motor vehicles; KBH 755 L – Nissan Navara and KTR 024 Land Rover were not availed for audit verification.

Assets procured by the County Government including motor vehicles were not in the Fixed Assets register. The County Government should take stock of all its assets and ensure that a master Fixed Assets Register is maintained which should clearly indicate values and locations of all its assets. Ownership documents for all should also be obtained. Transfer of ownership should commence immediately.

1.4.3 Current assets and liabilities

i) Creditors

The Town Council indicated total liability of Kshs.33,261,911 in the handing-over reports which include: LAPFund, LAPTrust, Leave allowances, unremitted staff bank loan and HELB deductions valued at Kshs.28,689,625, Kshs.2,031,806, Kshs.443,085, Kshs.450,000 and Kshs.187,325 respectively. However we could not independently confirm the balances as no third party confirmations were circularized.
The County Government should reconcile and independently verify all the creditors' balances before payment is made.

ii) Debtors

The Town Council reported a debtors' balance of Kshs.32,083,452 as at 28 February, 2013. The County Government did not verify outstanding debtors inherited from the defunct Councils. There was no notable effort by the County Government to collect the outstanding debts.
The County Government should prepare an inventory of all the its debtors and reconcile them to ensure the balances are correct and all have been captured.

1.5 Information Systems assessment

1.5.1 Integrated Financial Management Information Systems (IFMIS)

i) Computers and accessories

The County had received twenty (20) computers, twenty (20) special Orange CDMA modems and one scanner from the National Treasury (IFMIS Department) which will be solely used for IFMIS.

ii) Software

In terms of applications in place, the County had started utilizing two modules of the Integrated Financial Management Information System (IFMIS); Plan to Budget and Procure to Pay. The National Treasury installed fiber optic network in the month of August to solve the problem of poor network signal connectivity

1.5.2 Local Authority Integrated Financial Operations Management System (LAIFOMS)

Currently, all payments are done through LAIFOMS. The total payments as per LAIFOMS system from 1 July to 17 September amounted to Kshs.150,716,504.

A review of the data extracted from the system, which is also used for receipting and collection of revenue, revealed an under banking of Kshs.73,152,564 between 1 July 2012 and 4 March 2013 and Kshs.26,130,552 between 5 March, 2013 and 30 June, 2013.

The County Government should investigate how the unbanked revenue was utilized and hold responsible staff to account for any impropriety.

1.5.3 Integrated Payroll and Personnel Database (IPPD)

The County has fully installed the IPPD system and began the processing of payroll from May 2013.

However, analysis of data extracted from the system revealed the following:

- Nine officers did not have bank accounts and it was not clear where the salary is paid through.

- Four officers were noted to be sharing a bank account.

- A test of data migrated from the LAIFOMS to the IPPD revealed that twenty-five officers had differences in the Date of Birth.
  The County Government should Carry out an audit of its staff, their position, location and pay and ensure payroll data agrees to personnel data.

1.5.4 IT Control Environment and ICT Governance

- The IT section has five (5) staff, two permanent and three (3) employed on a temporally basis. There are no clearly defined roles and responsibilities leading to non-segregation of duties
- The County has allocated a budget Kshs.40 million for development. Each county department however has a component of ICT allocation in their departmental budget.
- The County at the time of audit had a mail domain and was in the process of developing a website.
- The County is yet to develop and implement some of the key ICT documents including; ICT policies and procedures, ICT Strategic Plan, 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.

The County Government should formulate and implement IT policy to ensure security and integrity of data.

1.6 Conclusion

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

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AUDITOR-GENERAL

Nairobi

27 February 2014

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

2.1 Introduction

The audit was to verify County Government preparedness to receive and utilize devolved funds before, during and after the transition period in addition to the transfer of assets, liabilities and staff from the defunct Kwale Town Council and Kwale County Council.

2.2 Terms of Reference

The Office of the Auditor-General is an Independent Office mandated by the Constitution (Article 229) to audit the accounts of the National and County Government. In this regard the office planned an audit for the Kwale County with the following terms of reference:

- Verification of cash and bank transactions held at various different accounts in the defunct Local authorities during the period of transition between 5 March and 30 June 2013.
- Examination of transactions of defunct Local Authorities between 1 January 2013 to 30 June 2013
- Examination of transactions of the County Government and County Assembly between 5 March and 30 June 2013.
- Check the closure of bank accounts as directed by the Transitional Authority.
- Check Proper procurement procedures as per procurement Act 2005 & 2006.
- Check current debtors and suppliers balances.
- Implementation of the IFMIS and G-Pay as opposed to manual system.
- Check the status and usage of the Motor vehicles and equipment.
- Confirm whether County bank accounts were opened on 4 March, 2013.
- IPPD Payrolls – Check for ghost workers in the payroll.
- Irregular borrowings, overdrafts and payment of non-existing loans.

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

2.3 Methodology

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

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

3 DETAILED FINDINGS

3.1 County Executive

3.1.1 Cash and Bank

Bank accounts operated by the defunct local authorities were to be closed by 28 February, 2013 and there was to be a smooth and seamless transfer of cash and bank balances before, during and after the transition to the County Government. Consequently, the County Government was to open Revenue Collection bank accounts at sub–counties and County Revenue Fund account either in Kenya Commercial Bank (KCB) or Central Bank of Kenya (CBK) where revenue was to be banked.

Pre-Transition Period

- Cash books were not maintained in the Local Authorities Integrated Financial Operations Management Systems (LAIFOMS). Payments were recorded on a manual register while revenue were recorded in LAIFOMS;
- No bank reconciliation had been prepared for the period before the bank accounts were closed;

- Dishonored and stale cheques were not reversed in the cash books.

Transition Period

- After 28 February, 2013, the defunct County Council of Kwale made payments amounting to Kshs.87,307,843 from the bank accounts.

- No evidence of cash receipts amounting to Kshs.762,040 as at 4 April, 2013 had been banked or transferred to Kwale County Government books.

- No bank reconciliation had been prepared for the period before the bank accounts were closed and balances transferred to County Government.

Post-Transition Period

- Bank accounts of the defunct Town Council and County Council were closed on varying dates between 3 June, 2013 and 6 July, 2013 and the balances transferred to County Government bank accounts.

- Dishonored and stale cheques were not reversed in the cash books.

- General Rate Fund account at Cooperative bank was still operational as at 15 August, 2013.

- Cash books for Revenue Accounts in Central Bank of Kenya (CBK) and Kenya Commercial Bank (KCB) were not maintained. Additionally, no bank reconciliations were prepared for the said bank accounts

Recommendations

All cash books should be maintained in a computerized accounting system in LAIFOMS before IFMIS is installed to reduce the risk of manual accounting records being manipulated for personal gains.

The County Government is advised to follow up with defunct Town Council and County Council officers to prepare bank reconciliations for all the banks for the months they were in operation. This shall ensure that correct bank balances were transferred to the County Government's bank accounts.

The County Government Treasurer 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. This shall ensure that errors and mistakes are detected and corrected in a timely manner.

Review all the cash books to ensure all dishonored, cancelled and stale cheques are reversed from the cash books and respective ledgers to reflect correct balances.

Investigate how cash balance of Kshs.762,040 was utilized. Appropriate action should be taken where there is evidence of misappropriation of the cash.

3.1.2 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 swept directly to County Revenue Fund account that was to be opened either at Kenya Commercial Bank (KCB) or Central Bank of Kenya (CBK).

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 Budgets.

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

Pre-Transition Period

- The defunct Town Council and County Council continued to operate their respective General Rate Fund accounts, Renewal, Projects and Local Authorities Transfer Fund (LAFT) bank accounts until when they were closed on varying dates between 3 June, 2013 and 6 July, 2013.

- Out of the sample reviewed, revenue amounting to Kshs.1,861,182 was not banked intact and on the same day collected.

- An amount of Kshs.2,886,958 was expended directly from the revenue account.

- Store clerk receives, records and keeps revenue receipt books contrary to the Local Authorities Act which requires such books to be controlled by the Treasurer or Head of Revenue.

- Some revenue receipts book counterfoils had not been surrendered by revenue officers before being issued with new books.

- At the defunct Kwale Town Council, revenue was not posted into Local Authorities Integrated Financial Management Systems (LAIFOMS). Revenue collections were recorded in a manual register which was not casted, reviewed and signed by Accounting officers.

- No effort was made to collect penalty fees from non – complying contractors as per agreement.

Transition Period

- There was a direct spending of Kshs.2,886,958 in the months of April to June, 2013 from KCB Revenue Collection account instead of being swept to County Revenue Collection Fund account.

- From a sample verified, revenue collections amounting to Kshs.6,882,442 was banked in Salaries account for payment of staff salaries.

- Part of the revenue collected at Ukunda sub–county was not banked at the nearest bank while balance of the collections was surrendered at Kwale office.

Post-Transition Period

- The revenue module in LAIFOMS was not updated with cheques banked;

- We observed that receipt books are not kept under lock and key.

- Sub–County revenue officer at Ukunda did not maintain a record of revenue collection.

- The County Government had not opened Revenue Collection bank accounts at Msambweni, Kinango and Samburu sub–counties. The sub–county revenue collections were therefore surrendered at Kwale offices.

The County Government should comply with all the relevant legislations, including the County Appropriation Act which require that all county revenues are banked promptly and intact into the Revenue Collection accounts at sub–counties and swept to County Revenue Collection Fund account at KCB or CBK.

A request for all expenditure (recurrent and development) by the County Treasury should be submitted to the Controller of Budgets for authorization. Direct spending should not be made from revenue collections without prior approval of the Controller of Budget.

The County Government should open Revenue Collection accounts in each sub –county where daily collections are banked intact. The bank deposit slips should then be surrendered to the cashier for accountability. This would minimize the risk of losing revenue collected through fraud, misappropriation or theft. In addition, such measures would minimize cases of teeming and lading by revenue officers/cashiers. 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.

There should be proper segregation of duties in the management of accounting documents especially receipt books. The role of receiving, recording, issuance and storage should be segregated to ensure control over receipt books and accountability for revenue collected. Counterfoil receipts should be surrendered in exchange for replacement.

The sub-county revenue officer should maintain proper records of revenue collected per revenue officer, daily bankings and copies of receipts issued by County cashier. This would provide an audit trail for accounting purposes.

The Accountant should review LAIFOMS reports and ensure that the system is updated with cheques banked so as to reconcile to banking's in cashbooks/bank statements and to provide correct financial status report.

The County Government should instruct the responsible officers of the defunct councils to ensure all accounting records for the councils for the nine (9) months are complete with the supporting schedules for audit by the Auditor-General.

4.0 County Council of Kwale

4.1 Handing Over during Transition

As per the Transition to Devolved Government Act, 2012, Section 7 {2- (e & g)}, the defunct local authority was supposed to prepare a handing over status report listing all the assets, liabilities and staff of the local authority held as at 28 February, 2013 transferred the county government. The exercise was to be facilitated by the Transition Authority.

We were presented with a report prepared by the former Town clerk on 26 February, 2013 addressed to the County Governor with details on the status of the defunct County Council as at that date. However, there was no evidence that the handing-over was facilitated by the Transition Authority as per County Transition Act.

Additionally, the County Council report did not disclose the balance of debtors as at the transition time.

The County Government should consult the Transition Authority to facilitate handing – over in compliance with County Transition Act. The Transition Authority is mandated to coordinate the handing–over and ensure that all defunct Local Authority's assets and valid liabilities are transferred and acknowledged by the County Government.

The official report may also form the basis for stating the financial position of the County Government as at the inauguration. Official handing over would minimize the risk of misappropriation of assets and acceptance of the defunct local authority's obligations.

4.2 Assets

The objective was to confirm that assets of the defunct County Council including motor vehicles, office equipment and furniture were transferred to the County Government and can be verified, and all properties are registered in name of County Government through transfer of ownership, assets of the County Government are used for County public use only.

Pre-Transition Period

- A total of 113 parcels of land as follows: 27 in Lungalunga, 14 in Msambweni, 11 in Matuga, 27 in Kubo and 34 in Kinango had no title deeds.

- 1,906 hectares of land in Maveche and a total of 37.65 hectares at: Vikunduni, Mwachada, Mbwaleni, Riakalwa, Gulanze, Luwanga and Samburu were not included in the asset register.

- Original title deeds for Diani Complex/902 (Ukunda Show Ground) and Kwale /Shimba/458 were not availed for audit verification.

- Some parcels of land had two different title deeds.

Transition Period

- The Transition Authority did not verify the assets of the defunct County Council and provide a report on their value and status;

- A consolidated Asset register of assets/inventory held by the defunct County Council was not prepared.

Post-transition period

- Assets procured by the County Government including motor vehicles were not in the fixed asset register.

- 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.

- Ownership of the assets had not been transferred to the County Government while documents of ownership were still in the custody of the defunct council.

The County Government should review asset registers of the defunct councils and consolidate into a County Government Asset Register with information on: cost, date of purchase, supplier, serial number, code number, location/custodian, depreciation charge and condition for ease of asset tracking.

The asset register should clearly classify assets according to the accounting standards where land, buildings, office equipment, motor vehicles, computers and software's should be classified.

The County Government should expeditiously transfer ownership of all properties registered in the defunct County council's name into the County Government's name to minimize the risk of losing such properties through illegal transfers. In addition, the County Government should apply for replacement of all lost land title deeds and log books from the relevant government agencies e.g. Ministry of Lands and Kenya Revenue Authority) KRA.

The County Government should confirm with Land Registry the true ownership and corresponding title deeds of all suspicious parcels of land including those with more than one title deed.

4.3 Creditors

The objective was to confirm that liabilities transferred by the defunct County Councils were authentic and relate to goods and services authorized and rendered to the council and that no illegal claims were inserted in the books during the transition period.

Pre-Transition Period

- Contradicting creditors' ending balance was provided as follows: Kshs.7,803,730 and Kshs.13,054,662 as per handing-over report and creditors' schedule respectively.

- Cheques amounting to Kshs.13,495,462 were outstanding in the bank reconciliation as at 28 February, 2013.

- Unremitted payroll deductions totaling Kshs.921,290 were reported as outstanding liability as at 28 February, 2013.

Transition Period

The Transition Authority did not verify liabilities of the defunct County Council to ensure that only authorized and supported balances were transferred to the County Government.

Post-Transition Period

- The County Government did not verify outstanding liability inherited from the defunct County Councils.

- The County Government had not put in place strategies of settling the liability.

Recommendations

The County Government should review all liabilities transferred from the defunct County council and ensure only authorized cost of services rendered and goods delivered are recognized in County Government's books. All fictitious liabilities should be cleared from the books and responsible officers made to account for their inclusion.

The County Government should consider reviewing the creditors balance to include the amount of un-presented /stale cheques in order to reflect the correct financial status of the County Government.

4.4 Debtors

The objective was to confirm that all defunct County Councils' operational debtors were transferred to the County Government and there is proper management of the County Government receivables. That all receivables have been received by the County Government and no unauthorized write-offs have been made.

Pre - transition period

- Kwale County Council handing–over report prepared on 26 February, 2013 did not disclose amount of outstanding debtors transferred to County Government;

- Some dishonored cheques received from rate payers were not reversed in the council's books of accounts.

A consultancy carried out on 2 February, 2013 on County Council Property rates raised the following issues:

- Rate arrears for eight thousand (8,000) properties were not entered into LAIFOMS during the change over from the manual system;

- Penalties were erroneously computed in LAIFOMS for period prior to January 2009.

- The LAIFOM database had duplicate property /parcels of land;

There were variances between manually computed property rates and LAIFOMS generated statements.

Recommendations

The County Government should inform the Transition Authority to facilitate the handing–over process as per the Transition Authority Circular Ref. No. TA / 7 / (20) where all defunct local authorities were to hand over a report on assets, debtors, liabilities, projects and staff to the County Government.

The County Government should review the bank reconciliations and ensure that all un-cleared cheques from rate payers are reversed to reflect the correct debtors' balances. Rate payers whose cheques were never cleared by the bank should be advised to make future payments by a banker's cheque or deposit cash into the County Government's bank account and present the deposit slip as evidence of payment.

Efforts should be made to collect all the long outstanding debts. Determined unrecoverable debts which be written off from the County Government books after proper authorization.

4.5 Expenditure / Procurement

Objective:

The objective was to confirm that, all expenditure were recorded and properly accounted for, during the transition period.
To ensure that all County Government expenditure adheres to the County Appropriation Act where all expenditure are requested by the County Treasury and approved by the Controller of Budgets.

Pre-Transition Period

- Spare parts costing Kshs.103,000 were purchased through imprest;

- Cash purchases of spare parts via PV no. 1209 – 0117 were not supported with requisition note and LSO / LPO.

Post-Transition Period

- The County Government was allocated Kshs.61,592,200 for construction of the Governor's residence. Out of the above allocation, Kshs.11,893,192 was paid on 30/06/2013 to unrelated contractors.

- By the time of audit, Kshs.9,215,605 out of the remaining Kshs.49,699,008.00 had not been returned to Central Bank of Kenya.
- 2012 / 13 fund balance of Kshs.107,932,744 had not been returned to the Exchequer;

- The Governor's residence project budget was not approved by the County Assembly. Although money was budgeted and disbursed, the project never took off.

Recommendations

The County Government should ensure all future procurements are guided by the relevant legislations including Public Procurement and Disposal Act 2006. This would ensure fairness and transparency and minimize incidences of fraud and corruption in the procurement process.
Where applicable, procurements should be supported with user requisition notes, bid analysis, LSO / LPO and delivery note as evidence of a procurement process.

The County Government should adhere to the Public Financial Management Act (PFM), County Appropriation Act and other related legislations before it incurs expenditure. The County Treasury should always seek approval of the Controller of Budget before committing funds to other Vote heads.

All unspent funds as at the close of the financial year (30/06/2013) should be returned to the Exchequer as per County Appropriation Act and PFM Act.

5.0 Town Council of Kwale

5.1 Handing Over- During Transition

According to a report prepared by the Interim Deputy Head, Human Resource on 2 May, 2013 on the status of the defunct Town Council as at 28 February, 2013 addressed to County Governor, there was no evidence that Transition Authority facilitated the handing-over process.

Recommendations

The County Government should consult the Transition Authority to facilitate the handing – over in compliance with County Transition Act. The office of the Transition Authority is mandated to coordinate the handing–over and ensure that all defunct Local Authority's assets and valid liabilities are transferred and acknowledged by the County Government.

The official report may also form the basis for stating the financial position of the County Government as at the inauguration. Official hand over may minimize the risk of misappropriation of assets and acceptance of the defunct local authority's obligations.

5.2 Assets

Parcels of land valued Kshs.195, 400,000 did not have title deeds as per the Asset Valuation carried out in the financial year.
Land was not separated from buildings in the Assets Register.
Out of the three (3), motor vehicles owned by the Town Council, logbooks for motor vehicles; KBH 755 L – Nissan Navara and KTR 024 Land Rover were not availed for audit verification.

Transition Period

The Transition Authority did not verify/audit assets of the defunct Councils and provide a report on their value and status;
A consolidated Asset register of assets/inventory held by the defunct Councils was not prepared.

Post-Transition Period

Assets procured by the County Government including motor vehicles were not in the fixed asset register;
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.
Ownership of the assets had not been transferred to the County Government while documents of ownership were still in the custody of the defunct councils.

The County Government should review asset registers of the defunct Town council and consolidate into a County Government Asset Register with information on: cost, date of purchase, supplier, serial number, code number, location/custodian, depreciation charge and condition for ease of asset tracking.

The asset register should clearly separate various categories of assets according to the accounting standards where land, buildings, office equipment, motor vehicles, computers and software should be categorized separately.

The County Government should expeditiously transfer ownership of all properties registered in the defunct Town councils' names into County Government's name to minimize the risk of losing such properties through illegal transfers. Additionally, the County Government should apply for replacement of all lost land title deeds and log books from the relevant government agencies e.g. Ministry of Lands and KRA.

The County Government should confirm with Land Registry the true ownership and corresponding title deeds of all suspicious parcels of land including those with more than one title deed.

5.3 Creditors

The Town Council indicated total liability of Kshs.33, 261,911 in the hand-over reports which include:

- LAPFund, LAPTrust, Leave allowances, unremitted staff bank loan and HELB deductions valued at Kshs.28,689,625, Kshs.2,031,806, Kshs.443,085, Kshs.450,000 and Kshs.187,325 respectively. However we could not independently confirm the balances as no third party confirmations were circularized.

- No evidence or explanation was provided for cash borrowing amounting to Kshs.60,445 indicated in the handing – over report;

- Some of the law firms engaged or paid during the period were not in the list of pre-qualified service providers;

- A total of Kshs.3,113,392 paid to law firms for the period ending 28 February, 2013 was not supported with fee notes and contract / agreement.

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 the County Government's books. All unsupported liabilities should be cleaned from the books and responsible officers made to account for inclusion.

The County Government should consider reviewing the creditors balance to include the amount of un-presented/stale cheques in order to reflect the correct financial status of the County Government.

Legal expenses should be scrutinized to ensure only pre-qualified law firms are engaged by the County Government. Any exceptional cases should be properly authorized and relevant documents attached to the payment voucher. Payments for legal fee should be supported with a fee note and engagement agreement as proof of service rendered.

5.4 Debtors

Pre - Transition Period

The Town Council reported a debtors' balance of Kshs.32,083,452 as at 28 February, 2013.

Transition Period

The Transition Authority did not verify debtors of the defunct Town Councils to ensure that only supported and recoverable balances were transferred to the County Government.

Post-Transition Period

- The County Government did not verify outstanding debtors inherited from the defunct Town Council.

- There was no notable effort by the County Government to collect the outstanding debtors balances

Recommendations

The County Government should inform the Transition Authority to facilitate the handing–over process as per the Transition Authority Circular Ref. No. TA / 7 / (20) where all defunct local authorities were required to hand over a report on assets, debtors, liabilities, projects and staff to the County Government.

The County Government should review the bank reconciliations and ensure that all un-cleared cheques from rate payers are reversed to reflect the correct debtors' balances. Rate payers whose cheques are not cleared by the bank should be advised to make future payments by a banker's cheque or deposit cash into the County Government's bank account and present the deposit slip as evidence of payment.

The County Government should explore the possibility of implementing the recommendations proposed by the Digital Savanna Ltd consultants on the malfunctioning of the LAIFOM system by reviewing and correcting the Property rates ledger. This would ensure that correct debtors' balances are reflected in the books of accounts.

Efforts should be made to collect all the long outstanding debts. Determine unrecoverable debts which to be written off from the County Government books after proper authorization.

6.0 Information Systems assessment

6.1 Management of IT operations

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

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

6.2 IT organization structure

The County IT department has five (5) personnel, two (2) were employed on permanent basis and three (3) on temporary basis. There are no defined roles and responsibilities on how to oversee the IT operations hence there is no clear segregation of duties.

6.3 Non-training of ICT staff on applications in place

Our interview with the ICT staff at the county revealed that only two (2) Staff had been trained on the IFMIS application as users, but none had been trained on G-PAY and IPPD and therefore they could not offer the necessary ICT support to users as required.

6.4 Staff Training on IFMIS

Twenty five (25) staff went through formal training at Kenya School of Governance (KSG), however only fifteen (15) staff have rights to access two modules of the system i.e. Plan to Budget and Procure to Pay.

6.5 IT Budget

The county has an allocated a budget of Kshs 40 million for ICT in development budget. The recurrent component is allocated per county departments in various ministries.

6.6 Website

The county is in the process of developing a website. However the mail domain is operational. The mail servers are hosted in the County IT department. However there is no mail policy.

6.7 Computers and Accessories

The County had received twenty (20) computers, twenty (20) special Orange CDMA modems and one scanner from The National Treasury (IFMIS Department) which will be solely used for IFMIS. The Interim ICT Manager has not been able to carry out an assessment of the ICT Status and Infrastructure of the County. There was no ICT register but the county is the process of developing the comprehensive IT asset register.

The County has one (1) data center (server room) at the former County Council of Kwale offices which was previously used for LAIFOMS. A physical inspection of the data center indicated the following:

i. The data center is located in the ICT office, which is accessible to all staff of the County. There are no adequate physical controls and logical controls to ensure that only authorized persons have access to the server.

ii. There are no smoke detectors, fire extinguisher and air conditioning controls to regulate the temperature of the server room.

6.8 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 former County Council of Kwale offices which interlink the LAIFOM system, but does not interlink the other systems and applications in place.

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

IFMIS has been installed in the County with only the Budgeting module in operation. The computers use fiber optic cable to connect to IFMIS through the Treasury's Virtual Private Network (VPN). The County was not able to use the CDMA modems because Orange connectivity is poor due to poor network signals. However the National Treasury installed fiber optic network in the month

of August to solve the problem of poor network signal connectivity. Currently, all payments are done through LAIFOMS. The total amount expenditure as per LAIFOMS system from 1 July to 17 September amounted to Kshs.150,716,504.

The County has one computer dedicated to G-Pay. Training on G-Pay had been undertaken for three (3) officers: Payment Cashier, Head of Treasury, and the Principal Finance Officer.

6.10 Integrated Personnel and Payroll Database (IPPD)

The County has fully installed the IPPD system and the payroll beginning May 2013 was processed using the system. There are four (4) trained users and one administrator who is the manager in charge. Analysis of the complement and payroll revealed the following:

6.11 Officers Without bank account

Analysis of bank Complement as maintained in the IPPD revealed that nine (9) officers do not have bank accounts.

6.12 Difference date of birth

Analysis of the IPPD complement data indicated that twenty five (25) officers have their date of birth different from the LAIFOMS master data.

6.13 Officers sharing bank accounts

Analysis of bank accounts as maintained in the IPPD revealed that four (4) officers are sharing bank accounts without proper authorization letters.

6.14 Difference in Basic Pay

Analysis and comparison of the IPPD and LAIFOMS payrolls revealed a difference in the basic pay earned by officers in the former Town Councils and the County Government. The total difference in basic pay amounted to Kshs.660,423 which was higher than the amount earned in the Town Council.

6.15 Local Authorities Integrated Financial Management System (LAIFOMS)

Currently, all payments are done through LAIFOMS. The total payments as per LAIFOMS system from 1 July to 17 September amounted to Kshs.150,716,504.

A review of the data extracted from the system, which is also used for receipting and collection of revenue, revealed an under banking of Kshs.73,152,564

between 1 July 2012 and 4 March 2013 and Kshs.26,130,552 between 5 March, 2013 and 30 June, 2013.

The County Government should investigate how the unbanked revenue was utilized and hold responsible staff to account for any impropriety.

A review of the system at the council revealed an under banking as shown in the table.

Recommendations on Information Systems

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

- The County Government 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 is captured in the LAIFOMS so that timely reconciliation can be done.

- The ICT department, as a strategic resource, needs to be adequately staffed and with defined roles so as to effectively manage the IT operations of the county.

- The County ICT Department should be enhanced in terms of personnel to adequately manage the ICT operations in an efficient and effective manner
- The county should do a thorough clean-up of the payroll to ensure data integrity.

Conclusion

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

accordance with Section 194 of the PFA Act 2012. Expenditure should be incurred in accordance with the requirements of the Public Finance Management Act 2012 and for the benefit of the public.

Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

27 February 2014