REPUBLIC OF KENYA

KENYA NATIONAL AUDIT OFFICE

REPORT

OF

THE AUDITOR–GENERAL

ON THE

FINANCIAL OPERATIONS

OF

THE COUNTY GOVERNMENT OF TRANS NZOIA AND ITS DEFUNCT LOCAL AUTHORITIES

FOR THE PERIOD I JANUARY TO 30 JUNE 2013

Table of Contents **Page**

EXECUTIVE SUMMARY 1
1.0 Introduction 1
2.0 Audit Objectives 1
3.0 Key Audit Findings 2
Trans Nzoia County Executive and Assembly 2
3.1 Handing Over and Taking-Over of Defunct Local Authorities by the County Government 2
3.2 Cash and Bank Balances 2
3.3 Debtors 3
3.4 Creditors Ledgers 3
3.5 Motor Vehicles and Office Equipment 3
3.6 Audit of Human Resources, IPPD Payroll and Establishment 3
3.7 Information Communication Technology (ICT) and G-Pay 4
Summary of the Findings 4
The observations and findings are categorized into hardware, software and the ICT control environment. 4
Recommendations and Conclusion 7
Defunct Municipal Council of Kitale 8
3.8 Handing Over to the County Government 8
3.9 Cash and Bank Balance 8
3.10 Debtors 8
3.11 Creditors Balances 8
3.12 Motor Vehicles 8
3.13 Establishment 9
3.14 Revenue Collection and Banking 9
Defunct County Council of Nzoia 9
3.15 Handing Over to the County Government 9

3.16 Cash and Bank Balances 9
3.17 Debtors 10
3.18 Creditors Balance 10
3.19 Motor Vehicles and Office Equipment 10
3.20 Establishment 10
Conclusion 10
DETAILED AUDIT REPORT 12
1.0 Audit Objectives 12
Trans Nzoia County Executive and County Assembly 13
2.0 Audit Findings 13
2.1 Handing Over and Taking Over from the Defunct Local Authorities 13
2.2 Cash and Bank Balances 13
2.3 Debtors Balances 14
2.5 Motor Vehicles and Office Equipment 14
2.6 IPPD Payroll and Establishment 15
2.7 ICT and G-Pay 15
Defunct Municipal Council of Kitale 17
3.0 Audit Findings 17
3.1 Handing Over and Taking Over of the Defunct Council 17
3.2 Cash and Bank Balances 17
3.5 Motor Vehicles and Equipment 19
3.6 Establishment and Personnel Records 19
3.7 Un-Banked Revenue 20
Defunct County Council of Nzoia 21
3.8 Handing Over and Taking Over of Defunct Local Authority 21
3.9 Cash and Bank Balances 21
3.10 Debtors and Other Receivables 22
3.12 Motor Vehicles and Equipment 23
3.13 Establishment and Personnel Records 24
Conclusion 24

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

EXECUTIVE SUMMARY

1.0 Introduction

1.1 The Auditor-General has the mandate to audit and report on the accounts of the National and County Governments under Article 229 of the Constitution and Public Audit Act, 2003. Further, the County Government Act, 2012 replaced the Local Government Act, Cap 265, thus effectively dissolving all the 175 Local Authorities and creating 47 County Governments.

1.2 According to Transition to Devolved Governments Act, 2012, after the general election on 4 March 2013, the functions, assets, liabilities and staff of the former Local Authorities were to be taken over by the County Governments. The 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.

2.0 Audit Objectives

The audit covered the Trans Nzoia County Executive, County Assembly, the defunct Municipal Council of Kitale and County Council of Eldama Ravine 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 verification and confirmation of transactions in respect to but not limited to the following areas:

- Taking over of the former local authorities
- Cash and bank balances
- 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

2.1 The audit teams faced several constraints during the audit 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 audit within the planned timeline.

3.0 Key Audit Findings

Trans Nzoia County Executive and Assembly

3.1 Handing Over and Taking-Over of Defunct Local Authorities by the County Government

The County Government of Trans Nzoia had not officially taken over the assets and liabilities of the defunct Municipal Council of Kitale and County Council of Nzoia as at the time of the audit in September 2013, contrary to instructions issued by the former Ministry of Local Government vide Circular No. MLG/1333/TY/52 of 18 February 2013.
The Transition Authority should make arrangement to have the chief officers of the defunct local authorities officially hand over the assets and liabilities of the former councils.

3.2 Cash and Bank Balances

The County Government did not open a County Revenue Account immediately after its inauguration in March 2013 as required by the Transition to Devolved Government Act, 2012, neither did the defunct local authorities close the bank accounts on 28 February and transfer any outstanding balances in to the County Revenue Account as envisaged in the law.

Three bank accounts were confirmed to be operated which included Operations Account with Kenya Commercial Bank, Standing Imprest Account and Revenue Collection Account with Equity Bank. However, no proper cashbooks were kept by the County Government.

The Imprest Account was overdrawn by Kshs.3,751,003.00 on 25 June 2013 without authority while the Operations Account was overdrawn by Kshs.39,705,625.70.

Failure to close bank accounts implied that revenue collections continued to be banked in these accounts and expenditure incurred, contrary to the law. The bank accounts should be closed and balances transferred to County Revenue Account. Expenditure incurred during the period should also be investigated and confirmed proper charge to public funds. Management should also ensure that proper cashbooks are maintained and any future overdrafts must be authorized. Cashing of cheques must be avoided except for office running imprests.

3.3 Debtors

The debtors' records were not maintained. Further, there was no information regarding the debtors transferred from the defunct local authorities since the handing over had not been done. Failure to maintain debtors' records may lead to some debts not being collected. The County Government should develop appropriate systems for recording of debtors, including the debt collection policy to facilitate timely collection of debts as and when they fall due. Further, handing over of assets and liabilities to County Government should be done without further delay.

3.4 Creditors Ledgers

There were no records including the ledgers maintained by the County Government to show the creditors position as at 30 June 2013. There was also no information relating to creditors that were to be taken over from the defunct local authorities since the creditors listing had not been done by the defunct councils as at the time of audit in September 2013. In the absence of such details, it was not possible to confirm if the county government had any creditors as at 30 June 2013.

The management should ensure proper recording of creditors, verified and updated on regular basis to ensure that only genuine creditors are recorded and paid.

3.5 Motor Vehicles and Office Equipment

There was no proper taking over of motor vehicles and office equipment from the defunct local authorities. In addition, a fixed assets register was not maintained for assets assumed from the defunct local authorities and those acquired by the County Government. The County Government should ensure that a consolidated fixed assets register is maintained, clearly showing the location of asset, cost and date acquired among other details.

3.6 Audit of Human Resources, IPPD Payroll and Establishment

The County government implemented IPPD system and the payroll in May 2013. There was however, only one (1) user who had been trained on the use of the system. Further, data migration into IPPD from LAIFOMS was not properly and accurately handled. The particulars of officers such as dates of birth, date of employment were not accurately transferred.

In addition all the staff of the defunct local authorities were transferred to the County Government but have not been subjected to the County Public Service Board for confirmation and redeployment as employees of the County Government. The audit further revealed that there was no job evaluation done to determine the personnel/human resource requirements in the new County

Government. The qualifications, experience and optimal number of staff required to run the County Government effectively, efficiently and economically were therefore not determined.

It is recommended that an urgent staff head count be carried out. The County Government Organization Structure should be professionally drawn with clear roles and responsibilities of each key position. Job evaluation should be done by a professional institution to assist the County Government with the job contents for each position, the salary structures and the requisite qualifications of personnel for each key position in the entire County Government structure. We further recommend staff rationalization and redeployment of under-utilized and redundant staff.

3.7 Information Communication Technology (ICT) and G-Pay

Review of the ICT structure showed that the County Government had made a lot of progress in embracing ICT in the management of its operations although only one module of IFMIS was in use, Plan to Budget. LAIFOMS was used in recording of revenue only while IPPD for human resource management and payroll processing effective May 2013. G-Pay had also been appropriately equipped and put to use.

However, the limiting factor is the internet connectivity which is done through orange modems, which however do not provide stable and consistent internet connection and especially connection to IFMIS and G-Pay servers which are located in Nairobi. Further, although the County Government had developed an ICT Policy and IT strategic Plan, it was yet to set up IT steering Committee to oversee the day to day management of IT services delivery and IT projects.

Summary of the Findings

The observations and findings are categorized into hardware, software and the ICT control environment.

Hardware

i) The County Government had received sixteen (16) desktop computers from The National Treasury (IFMIS Department) solely to be used for IFMIS and had since been allocated to the users. The computers had updated anti-virus software in place. The IT Department had an ICT Asset Register where IT inventory transferred from the defunct Local Authorities were recorded indicating the condition of each machine.

During the audit, it was observed that procurement of some ICT equipment in the county was being conducted without the involvement of the IT department. The IT department was not involved in the requirement specifications and during inspection and acceptance of the equipment as evidenced by the Memo from the Office of the Executive member in charge of Education and Information,

Communication & Technology. Further observation revealed that one desk top in the Payroll department was supplied by the procurement department but did not have any operating system and IT manager confirmed that he had not been involved in the procurement of the same.

ii) Servers

The County has in place two (2) operating servers for the former local authorities; Kitale Municipal Council and at the Nzoia County Council. Both servers are located at the offices of the former Kitale Municipal Council.

iii) Network Connectivity

There was no established Wide Area Network at the County to connect various Sub-County offices. However, there was an established Local Area Network (LAN) at the County Assembly (formerly County Council of Nzoia) and the offices of the former Kitale Municipal Council. There was presence of fiber connectivity in the County where it terminates at the County Assembly offices. Availability of fiber will enhance connectivity and access to information within the County. Orange Kenya was providing internet service to the County at a speed of 5Mbps.

Software

Integrated Financial Management Information System (IFMIS)

i) Active Modules

The county had only utilized one module i.e. Plan to Budget where as the rest of the modules were yet to be utilized and the financial operations were still manual. As at the date of the audit, the County Government had managed to input the 2013/14 budget and was in the process of inputting the 2013/14 supplementary budget. However, at the time of our assessment sixteen (16) employees had been assigned passwords to the IFMIS system so as to access the following roles and responsibilities; Supplier definition, Invoicing, Validation, Cash payment, Batch payment (G-Pay), General Ledger, Encumbrances and Accounts Receivables.

ii) Training on IFMIS

Sixteen (16) County Government staff had been trained at Kenya School of Government on IFMIS and among them were two officers from the IT department.

iii) Connectivity

Twenty (20) Orange Modems were received by the County Government for IFMIS and it was noted that orange signal in Kitale was relatively strong though there were periods during the day when the signal was weak. However, with the presence of fibre connectivity in the County, Treasury could configure a Virtual Private Network between the router at the County Headquarters and at Treasury to create a secure and reliable connection.

iv) G-PAY

The County Government had three (3) computers in place dedicated for the use for G-Pay; one of the machines being used as a server while the other two as client computers. Seven (7) County officers had been trained on G-Pay and assigned the roles of Administrator, Approver, Verifier and Data Entry.

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

LAIFOMS is installed in two (2) sites; at the former Kitale Municipal Council and former County Council of Nzoia offices. The Receipting Module was the only active module. The Expenditure Module was automatically disabled from 30 June 2013 because the budget was prepared through IFMIS from 1July 2013.

An analysis of the data extracted from the system revealed that officers of the county were not fully utilizing the Receipting Module where all money received should be banked intact and the corresponding banking slips posted in the system**.**

vi) Integrated Payroll and Personnel Database (IPPD)

The County had implemented IPPD system and the payroll was processed using the system from May 2013. There was only one (1) user who had been trained on the use of the system. However, the data that was migrated into IPPD had the following integrity issues:

- There was one (1) officer whose house allowance irregularly increased. from Kshs.13,000 in May to Kshs.14,000 in June 2013.
- There were nine (9) officers who received leave allowance twice in the months of June and July 2013 irregularly. However, only seven (7) of these officers were being recovered the amount irregularly paid to them.
- There were two (2) officers whose details showed that they had been employed when they were below the statutory age of eighteen years.
- There were twenty nine (29) officers whose dates of employment in IPPD and in LAIFOMS were different.

- There were one hundred and seventy nine (179) officers whose dates of birth in IPPD and in LAIFOMS were different.

IT Control Environment and ICT Governance

The IT section had only four (4) personnel, two of whom were on attachment, and there were no defined roles and responsibilities on how to oversee the IT operations hence there is no clear segregation of duties. There is also no IT organogram in place to define responsibilities and Authority.

From the approved 2013/14 County budget, the ICT department was allocated Kshs.47,610,717 for capital expenditure in the County. This amount allocation may enable the County achieve some of its planned ICT development thereby improving efficiency and effectiveness of its operations. It was also observed that the IT department was involved in the preparation of the budget.
The County has an Executive Member who will solely be in charge of Education and ICT. This indicates that the County views ICT as a strategic resource which will enable the County to achieve its objectives effectively and efficiently.
The County had prepared the following key ICT documents:

- ICT Policy
- ICT work plan for the current financial year.
- IT Strategic Plan through the County Integrated Development Plan (CIDP).

However, there was no ICT Steering Committee in place to oversee the day to day management of ICT service delivery and IT projects.
The server room did not have adequate physical access and environmental controls.

Recommendations and Conclusion

- All procurement of ICT equipment should be carried out with the involvement of the IT department.

- The County should ensure that all its Sub-County offices are inter-connected to the head office to ensure efficient monitoring of each Sub-County financial process.

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

- The County should carry out a data clean-up of its human resource data to ensure the integrity of the payroll data.
- Adequate physical access and environmental controls in the server room need to be put in place.

Defunct Municipal Council of Kitale

3.8 Handing Over to the County Government

The defunct Municipal Council of Kitale had not officially handed over the assets and liabilities to the county government as at the time of the audit in September 2013, contrary to instructions issued by the former Ministry of Local Government vide Circular No. MLG/1333/TY/52 of 18 February 2013.
The Transition Authority should make arrangement to have the chief officers of the defunct local authorities officially hand over their assets and liabilities to the county government.

3.9 Cash and Bank Balance

The defunct council operated seven (7) bank accounts but did not close them by 28 February 2013 as instructed. The accounts had not been closed even as at the time of audit in September 2013. The management should ensure that proper cashbooks are maintained and reconciled monthly and the outstanding balances paid in to the county government revenue account. Huge Cash withdrawals should be investigated and cash withdrawals should only be for official cash office use.

3.10 Debtors

The council's debtors' balance stood at Kshs.1,301,718,707.00 as at 28 February 2013. However no proper and up to date records were maintained to authenticate the balance. Proper debtors' records should be maintained and the outstanding balances verified and handed over to the county government.

3.11 Creditors Balances

The creditors' balance stood at Kshs.918,033,120.00 as at 28 February 2013. However, the balance includes salary arrears and casual wages amounting to Kshs.185,070,940.00 which was not analysed. Further, included balance was Kshs.611,885,193.00 in respect of statutory deductions which had not been remitted and no reasons were provided for non-remittance. Creditors balance should be analysed, verified and handed over to the county government. Further, statutory deductions should be remitted to avoid penalties associated with late remittance.

3.12 Motor Vehicles

The defunct council did not maintain an up to date fixed assets register. Four vehicles were jointly owned with a local bank though there was no information

confirming that the council owes the institution any money. In addition, the vehicles and equipment were not properly handed to the county government. Proper assets register should be maintained for all the assets. All the vehicles and equipment should be listed and officially handed over to the county government. Vehicles that are jointly owned with the bank should be transferred to the county government.

3.13 Establishment

The audit revealed that the council implemented the Collective Bargaining Agreement in February 2013 for its two hundred and twenty nine (229) permanent employees and by 30 June 2013 it had not carried out any head count so as to officially hand over to the County Government. The management should carry out staff head count in order to ensure that no ghost workers are transferred to county government.

3.14 Revenue Collection and Banking

Revenue amounting to Kshs.8,459,534.00 collected between January and February 2013 was not banked intact but instead spent at source contrary to the Government Financial Regulations and Procedures on management of revenue. The management should ensure that all unbanked revenue is properly accounted for and that future revenue collected be banked intact and promptly.

Defunct County Council of Nzoia

3.15 Handing Over to the County Government

The defunct County Council of Nzoia had not officially handed over its assets and liabilities to the county government as at the time of audit in September 2013, contrary to instructions issued by the former Ministry of Local Government vide Circular No. MLG/1333/TY/52 of 18 February 2013.
The Transition Authority should make arrangement to have the chief officers of the defunct local authority officially hand over the assets and liabilities of the former council to the county government.

3.16 Cash and Bank Balances

The defunct council operated seven (7) bank accounts. However, the accounts were still not closed by 28 February 2013 and even 30 June 2013 contrary to Transition Authority instructions. The seven accounts had total credit balances of Kshs.39,012,068.05 as at 28 February 2013 and Kshs.1,870,941.68 as at 30 June 2013.The management should ensure that proper cashbooks are maintained and reconciled monthly and the outstanding balances as at the time of closure properly paid in to the county government revenue account.

3.17 Debtors

The council records reflected the debtors balance totalling Kshs.299,780,494.00.00 which include Land Rates debtors of Kshs.293,112,130.00 that was not analysed or explained. Proper debtors' ledgers should be maintained, outstanding balance analysed, verified and handed over to the county government.

3.18 Creditors Balance

The council records reflected the creditors balance totalling Kshs.14,939,031.00 which includes salary arrears of Kshs.7,027,400.00 that was not supported by any analysis. All creditors' balances should be properly supported, verified and transferred to county government.

3.19 Motor Vehicles and Office Equipment

The defunct council did not maintain an up to date fixed assets register and no proper handing over of the assets to county government was done. The motor vehicles balance of 2,356,331.46 as at 28 February 2013 includes a motor grader valued at Kshs.146,093.74 for which log book was not provided for audit review. Consequently, ownership of the grader could not be confirmed. Management should ensure that an up to date fixed assets register is maintained and missing log books secured.

3.20 Establishment

The defunct council had permanent staff size of seventy (70) employees. The staff had salary arrears of Kshs.7,027,400.00 that arose as a result of implementation of the Collective Bargaining Agreement. However, no proper hand over to the County Government was done. The management should carry out staff head count in order to ensure that no ghost workers are transferred to county government.

Conclusion

The audit has revealed that poor book keeping was very much evident in the defunct local authorities and appears to exist in the County Government. In addition the adoption of technology is very low and the county government has not put in place mechanisms to improve the situation. It is also clearly evident that the process of taking over of assets and liabilities, including staff of the former Councils was not properly handled due to apparent lack of leadership by officials of Transition Authority who had the responsibility to ensure a smooth and seamless transition process. The County Government should however ensure full control of functions, including revenue collection, recording and proper accounting for the same while awaiting guidance from the National Treasury based on the accounting and reporting systems to be developed by the Public

Sector Accounting Standards Board in accordance with Section 194 of the Public Finance Management Act,2012 . Further, the expenditure should be incurred in accordance with the requirements of the Public Finance Management Act, 2012.

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

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

Nairobi

8 May 2014

DETAILED AUDIT REPORT ON OPERATIONS OF COUNTY GOVERNMENT OF TRANS NZOIA EXECUTIVE, TRANS NZOIA COUNTY ASSEMBLY, DEFUNCT MUNICIPAL COUNCIL OF KITALE AND DEFUNCT COUNTY COUNCIL OF NZOIA FOR THE PERIOD 01 JANUARY TO 30 JUNE 2013

1.0 Audit Objectives

The following were the main audit objectives:

- Confirm existence of proper accountability of cash and bank balances before, during and after transition to the County Government.

- Confirm that revenue and expenditure were recorded and properly accounted for before, during and after the transaction period.

- Confirm that operational debtors and creditors were accurately recorded and transferred from the defunct local authority to County Government.

- Establish that assets taken over by the County Government are properly listed, exist and are being used to provide services to the County.

- Ensure that assimilation of the defunct local authority's staff with other County Government staff is seamless and no ghost workers or irregular change of items have been imported in the new IPPD system.

- Ensure that the County Assembly and Executive Committees comply with the budget and that expenditures are properly charged to County Revenue Fund.

- Ensure that ICT system is not circumvented by manual system where IFMIS and G – Pay systems are fully implemented.

- Confirm that where manual systems are in use, proper accountability system is put in place and specific plans for system changeover exist.

- Confirm that procurement of goods and services is done in accordance with the Public Procurement and Disposal Act, 2005, and related 2006 and 2013 Regulations.

Trans Nzoia County Executive and County Assembly

2.0 Audit Findings

2.1 Handing Over and Taking Over from the Defunct Local Authorities

All local authorities ceased effective 4 March 2013 after the general election. According to the Transition to the Devolved Government Act, 2012, local authorities were supposed to prepare a detailed listing of assets, liabilities and staff to facilitate handing over to the County Governments in their region of jurisdiction. Both local authorities under Trans Nzoia County Government i.e. Municipal Council of Kitale and County Council of Nzoia did not prepare the required lists of assets, liabilities and staff and therefore no proper handing over was done. The taking-over of the assets and liabilities of the defunct local authorities by the County Government was not coordinated and may lead to loss of some of the assets.

Recommendations

i) The Transition Authority should ensure that former Chief Officers of the defunct Local Authorities properly hand over the assets and liabilities.

ii) There should be full disclosure of the former Councils' outstanding debts to ensure that the County Government only inherits genuine debts.

2.2 Cash and Bank Balances

The County Government opened three bank accounts at Equity Bank and Kenya Commercial Bank which had the following had the following balances according to the bank statements as at 30 June 2013.

Bank	Account Name	Account No	Amount (Kshs)
Equity Bank	Imprest Account	0330260875558	6,110,869.00
Equity Bank	County Revenue A/C	0330260729452	4,649,426.12
Kenya Commercial Bank	Operations Account	1140772694	58,691,026.75

Section 12 (2) of County Governments Public Finance Management Transition Act No 8 of 2013 requires that no accounting officer should authorize the bank account of a County Government to be overdrawn. However, a review of the bank reconciliations and bank statements revealed the following:

i) The County Government continued to make payments out of Equity Bank (Imprest Account) without sufficient funds between 11 June and 25 June

2013 which led to cumulative overdraft stand at Kshs.3,751,003.00 on 25 June 2013.

ii) The bank reconciliation for the Operations Account for the month of June 2013 showed that the cash book was overdrawn by Kshs.39,705,625.70 contrary to Section 12 (2) of County Governments Public Finance Management Transition Act No 8 of 2013. No explanation was provided for the anomaly.

Recommendations

Receipts cashbook should maintained for prompt recording of all revenue collected by the County. The revenues should be recorded in the cashbook and banked intact. Separate cash books should be maintained for the County Government and County Assembly to ensure proper accountability of funds received and by each unit.

The County Government should ensure that cash board of survey is conducted at the closure of every financial year. Future overdrafts must be authorized. Cashing of cheques must be avoided except for office running imprests.

2.3 Debtors Balances

The County Government did not provide the Debtors' Ledger for audit review. It was therefore not possible to confirm the Debtors balance as at 30 June 2013.

Recommendation

Debtors' register and ledger should be maintained and updated in order to ensure accuracy and recoverability of the debts.

2.4 Creditors

The County Government did not maintain Creditors' ledger. The Creditors position as at 30 June 2013 could therefore not be ascertained.

Recommendation

The County Government should introduce a system for properly recording the details of each creditor and which should be verified and updated on regular basis. This will ensure that only genuine creditors are entered in the records and consequently paid by the County Government.

2.5 Motor Vehicles and Office Equipment

The County Government did not maintain assets register to show the motor vehicles and office equipment taken over from the defunct local authorities and

those acquired between March and 30 June 2013. Failure to maintain such a record, the County Government may lose the assets without trace.

Recommendation

The management should ensure that a proper and up to date Fixed Assets Register is maintained. All assets of the County Government should be marked and recorded in to the register.

2.6 IPPD Payroll and Establishment

The County Government implemented IPPD system and the payroll in May 2013. There was, however, only one (1) user who had been trained on the use of the system.

Further, data migration into IPPD from LAIFOMS was not properly and accurately handled. The particulars of officers such as dates of birth, date of employment were not accurately transferred.

The audit of personnel records revealed that as at June 2013, the County Government had a total of 326 permanent employees.

The figure included 299 in respect of the former local authorities' employees as per head count report of 24 August 2013 which excluded one employee who was on suspension. The head count further established that five employees out of 214 casuals were aged over 60 years.

Recommendations

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

ii) The County Government should critically review the report of the head count to ensure that no ghost workers are inherited from the defunct councils and to align its payroll with the head count.

iii) Also, critical job evaluation and assessments should be undertaken to facilitate deployment of key staff to relevant departments. This will assist in identification of skill gaps and recruitment of optimal staff with the required skills and qualifications.

2.7 ICT and G-Pay

Section 8 (2a) of the County Governments Public Finance Management Transition Act, 2013 requires the Transition County Treasury to ensure that the financial management system developed by the National Treasury under Section 12 of the Public Finance Management Act, 2012 is effectively applied to facilitate standard financial management, including budgeting, accounting and reporting

provided the operation of the financial management system promotes the distinctiveness of the national and county levels of government.

A review of the ICT of the County Government of Trans Nzoia revealed the following:

i) IFMIS has been implemented but only one module, Plan to Budget has been put to use. The rest of the modules are yet to be activated.

ii) LAIFOMS is used in recording of revenue only while IPPD for human resource management and payroll processing effective from May 2013. G-Pay had also been appropriately equipped and put to use.

However, the limiting factor is the internet connection which is done through orange modems, which however do not provide stable and consistent internet connection. Further, although the County Government had developed ICT Policy and IT strategic Plan, it was yet to set up IT steering Committee to oversee the day to day management of IT services delivery and IT projects.

2.8 Staffing and Segregation of Duties

The IT section has only four (4) personnel, two of who are on attachment. Further, there are no defined roles and responsibilities on how to oversee the IT operations thus negating the principle of segregation of duties. There is also no IT organogram in place to define responsibilities and authority.

Recommendations

i) The management should ensure that all modules of IFMIS are in use and fully utilized for the management of financial operations.

ii) The IFMIS Directorate should fast track the implementation of C-IFMIS to integrate the Revenue Module of LAIFOMS and IFMIS. This will ensure that all revenue collected by the County is reflected in IFMIS thereby promoting accountability of the funds.

iii) The management should ensure that each Sub-County has a system in place to monitor the collection of its revenue and ensure that all expenditure incurred is centralized.

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

v) The ICT department, as strategic resource, should be adequately staffed and with defined roles to enable effective management of IT operations of the County.

vi) The server room should have adequate physical and environmental control to safeguard the data.

Defunct Municipal Council of Kitale

3.0 Audit Findings

3.1 Handing Over and Taking Over of the Defunct Council

All former local authorities including the Municipal Council of Kitale were required by the Transitional Authority to list all assets, staff and liabilities for onward handing over to the County Governments when they are inaugurated. However, as at the time of audit in September 2013, no such report had been prepared by the defunct Council.

Recommendations

(i) The Transition Authority should ensure that former Chief Officers of the defunct Local Authority properly hand over the assets and liabilities.

(ii) There should be full disclosure of the former Council's outstanding debts to ensure that the County Government only takes over genuine debts.

3.2 Cash and Bank Balances

The defunct Municipal Council of Kitale operated seven (7) bank accounts, which, according to the Transition Authority were supposed to have been closed on 28 February 2013. It was however noted that these accounts were not closed and continued to operate even after 30 June 2013. No reason was given for this noncompliance. The accounts had the following balances:

Bank	Account Name	Account Number	Cash book Balance as at 28 February 2013 (Kshs)	Balance per Bank statement as at 30 June 2013 (Kshs)
National Bank	General Rate Fund	1002048152300	4,905,715.20DR	177,419CR
Standard Bank	General Rate Fund	1020194990901	476,272.70CR	14,162,190CR
Family Bank	General Rate Fund	9300004396	2,835,837.65DR	8,691.35CR
Equity Bank	Salaries	330291757770	5,571.00 CR	5,420.85CR
Equity Bank	General Rate Fund	330291626904	127,753.70CR	10,563.73CR

Standard Bank	LATF	0102094790900	133,964.70CR	32,701.05
Cooperative Bank	Road Maintenance Levy Fund	0112008534840	3,772.70CR	3,772.70CR

Recommendation

Failure to close bank accounts implied that revenue collections continued to be banked in these accounts and expenditure incurred, contrary to the law. The bank accounts should be closed and balances transferred to the County Revenue Account. Expenditure incurred during the period should also be investigated and confirmed to be a proper charge to public funds. Management should also ensure that proper cashbooks are maintained and any future overdrafts must be authorized.

3.3 Debtors

The defunct Municipal Council of Kitale did not maintain proper and up to date debtors' ledgers. However, information available showed that as at 28 February 201 debtors stood at Kshs.1,301,718,707.00.

The debtors were however not supported by any documentation. As such the correctness of the debtor's balance of Kshs.1,301,718,707.00 could not be confirmed. Further no recovery measures have been put in place to ensure that these long outstanding debtors are recovered.

Recommendation

Debtors' register and ledger should be maintained and updated in order to ensure accuracy and recoverability of the debts.

3.4 Creditors

Records of the defunct Municipal Council showed that a total of Kshs.918,033,120.00 was outstanding as at 28 February 2013 out of which a balance totalling Kshs.185,070,940.00 that was not analysed.

The creditors balance further includes amounts totalling to Kshs.611,885,193.00 in respect of statutory deductions. No reason has been given for non-remittance of these deductions.

Recommendation

i) The County Government should introduce a system for properly recording the details of each creditor and which should be verified and updated on

regular basis. This will ensure that only genuine creditors are entered in the records and consequently paid by the County Government.

ii) Unanalysed creditors should be investigated and appropriate action taken.

3.5 Motor Vehicles and Equipment

A review of the assets register showed that the defunct Municipal Council of Kitale owned motor vehicles with a net book value of Kshs.12,018,814.00.

An inspection of the ownership documents revealed the following unsatisfactory matters:

(i) Log book for a Grader registration number KAW 752Z was not provided for audit review and therefore its ownership could not be confirmed

(ii) Log books for the following vehicles showed that the vehicles were jointly owned between the defunct council and Family Bank;

- MF tractor of registration number - KAN 093P
- Peugeot 406 registration - KAR 597R
- Peugeot 504 registration number - KZT 314
- Land Rover 110 registration number – KAW 782Z

No reason was given as to why the vehicles are still jointly owned given that the council does not owe the bank any money.

Recommendation

i) The log book for the Grade should be availed.

ii) Management should confirm the reason why the log books are still in the names of the defunct council and the bank and have the situation regularised

3.6 Establishment and Personnel Records

The defunct Municipal Council had two hundred and twenty nine (229) employees as at February 2013, who included two officers seconded to other County Governments of Kwale and Bungoma. This information was confirmed through head count carried out in August 2013.

The monthly wage bill for the Council was Kshs.7,895,158.00 for the month of December 2012 and January 2013. However, from the month of February 2013, the monthly wage bill increased to Kshs.12,608,385.00 as a result of implementation of the Collective Bargaining Agreement (CBA) entered in the

Register of Collective Agreements maintained by the Industrial Court under entry RCA No. 21 of 2013 dated 7 February 2013 and which was back dated to 1 September 2012.

Recommendation

i) The County Government should carry out staff head count in order to ensure that no ghost workers are inherited from the defunct council and to align its payroll with the head count.

ii) Further, critical job evaluation and assessments should be undertaken to facilitate deployment of key staff to relevant departments. This will also assist in identification of skill gaps and recruitment of staff with the required skills and qualifications.

3.7 Un-Banked Revenue

Section E of the Local Authorities Financial Management Regulations 2007 provides guidelines on revenue collection and receipts by Local Authorities. Sub-section 5(b) stipulates that all money (cash and cheques) received by the council should be deposited immediately in the local authority bank account(s). Sub section 5(d) prohibits the use of collected revenue at source. Examination of revenue records revealed the following unsatisfactory matters:

i) A total of Kshs.24,150,242.00 was collected between 1 January 2013 and 28 February 2013 out of which, an amount of Kshs.15, 690,708.00 was banked leaving a balance of Kshs.8,459,534.00 as below:

Month	Collection (Kshs)	Bank-NBK (Kshs)	Unbanked (Kshs)
Jan-2013	12,770,992.00	8,417,272.00	4,353,720.00
Feb-2013	11,379,250.00	7,273,436.00	4,105,814.00
Total	**24,150,242.00**	**15,690,708.00**	**8,459,534.00**

The unbanked amount was said to have been spent at source on various recurrent expenditure items. However, no reason was given as to why the revenue was not banked intact as required.

ii) The Council used LAIFOMS to process payments, record revenue and prepare payroll. However, the results produced by the LAIFOM cash receipting system could not be linked to the pre-printed serial numbers of receipts issued to customers by the collectors. In the absence of a link between revenue receipt numbers and the information generated by the LAIFOM system, it was not possible to reconcile and authenticate the two records.

Recommendation

i) The management should ensure that revenue collected and banked is captured in the LAIFOMS or any other efficient operationalized computer system to facilitate timely reconciliations.

ii) The serial numbers of revenue receipts must also be captured in the revenue receipting system on surrender of daily collections.

iii) An investigation should be carried out to identify the cause of revenue differences between what was collected and what was banked.

Defunct County Council of Nzoia

3.8 Handing Over and Taking Over of Defunct Local Authority

All former local authorities including the County Council of Nzoia were required by the Transition Authority to list all assets, staff and liabilities for onward handing over to the County Governments when they are inaugurated. However, as at the time of the audit in September 2013, no such report had been prepared by the defunct council.

Recommendations

i) The Transition Authority should ensure that former Chief Officers of the defunct Local Authority properly hand over the assets and liabilities.

ii) There should be full disclosure of the former Council's outstanding debtors and creditors to ensure that the County Government only takes over genuine debtors and creditors.

3.9 Cash and Bank Balances

The County council operated seven bank accounts held with various banks in Kitale town. As at 28 February and 30 June 2013, these accounts had the balances as shown below:

Bank	Account Number	Balance as at 28 February 2013 (Kshs) as per Bank certificate	Balance as at 30 June 2013 (Kshs)
Cooperative Bank	011412685888300	15,000.00 CR	No confirmation
National Bank	01377048062701	15,166,166.25CR	No confirmation

		Fixed Deposit	
National Bank	01002048174900	6,508,461.70CR	1,480,431.12CR
Equity Bank	0330291862383	253,177.57CR	101,345.57CR
National Bank	01231048174900	7,084,503.29CR	289,164.99CR
National Bank	01231048062700	1,077,468.57CR	No Confirmation
National Bank	01002048062701	8,907,290.72CR	Nil

Although the local authorities were to close bank accounts and transfer the balances to the County Governments as soon as they became operational, the defunct County Council of Nzoia continued to operate the bank accounts as at 30 June 2013. No reason was given for the non-compliance with the directive. Failure to close bank accounts implied that revenue collections continued to be banked in these accounts and expenditure incurred, contrary to the law.

Recommendation

The bank accounts should be closed and balances transferred to County Revenue Account. Expenditure incurred during the period should also be investigated and confirmed to be proper charge to public funds. Management should also ensure that proper cashbooks are maintained and any future overdrafts are authorized.

3.10 Debtors and Other Receivables

As at 28 February 2013, the defunct County Council of Nzoia had outstanding debtors amounting to Kshs.299,780,494.00 all of which relate to the period 2011/2012 and earlier years.

There was no evidence of the measures being undertaken by the management to collect these debtors which have been outstanding for long. Further, the analysis to support the make-up of the land rates debtors' balance amounting to Kshs.293,112,130.00 was not provided for audit review.

Recommendation

Debtors' register and ledger should be maintained and updated in order to ensure accuracy and recoverability of the debts.

3.11 Creditors

The defunct county council had creditors amounting to Kshs.14,939,031.00 as at 28 February 2013 made up of the following:

Creditor	Amount (Kshs)
Salary Arrears	7,027,400.00
LAPTRUST	4,179,134.00
ALGAK	1,088,497.00
Kenya National Audit Office	2,644,000.00
TOTAL	**14,939,031.00**

The figure of salary arrears balance of Kshs.7,027,400.00 was not analysed and therefore its correctness could not be confirmed.

Recommendation

The County Government should introduce a system for properly recording the details of each creditor and which should be verified and updated on a regular basis. This will ensure that only genuine creditors are entered in the records and consequently paid by the County.

3.12 Motor Vehicles and Equipment

Records available showed that the defunct council had plant and machinery with a net book value (NBV) of Kshs.2,356,331.45 as at 28 February 2013. They consisted of, Nissan lorry, Motor grader, New Holland tractor, trailer and Exhauster Trailer as below:

Registration No	Make/Type	Year	NBV (Kshs)
KAW847Z	Nissan Lorry	2009	1,715,345.15
KWE130	Motor Grader	1990	146,093.74
KAR148L	Tractor- New Holland	2004	401,757.81
	Trailer	-	45,654.30
	Exhauster Trailer	-	47,480.46
Total			**2,356,331.46**

However, log book for grader registration number KWE 130 was not provided for audit verification to confirm the ownership.

Recommendation

Management should make available the Graders log book to confirm ownership.

3.13 Establishment and Personnel Records

The defunct Council had 70 permanent employees including three officers seconded to other county governments in Murang'a; Bomet and Siaya. Although former Local Authorities were to implement a Collective Bargain Agreement (CBA) to raise the salaries and house allowances of the employees effective from September 2012, the defunct council did not implement the increment. This resulted to a salary arrears amounting to Kshs.7,027,400.00 as at 28 February 2013. No reason or explanation was provided as to why the salary increment was not implemented and the arrears paid.

Recommendation

The County Government should conduct an audit of the personnel and ascertain the optimum staff requirements for efficient operation in future. The salary arrears should also be settled.

Conclusion

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

Similarly, accordance to Section 194 of the Public Financial Management Act, 2012, the Public Sector Accounting Standards Board is charged with the mandate of developing model accounting and reporting systems for the National Treasury which shall be adopted by the County Government in order to ensure standards are applicable across the County Governments. This had not been done. But in spite of these challenges, the County Government of Trans Nzoia should take control of functions, including revenue collection, recording and proper accounting for the same.

I wish to thank the management of Trans Nzoia County for their cooperation and assistance extended to my staff during the period of this important audit assignment.

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

Nairobi

8 May 2014