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REPORT

OF THE

AUDITOR-GENERAL

ON

FINANCIAL OPERATIONS

OF

ISIOLO COUNTY

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SPECIAL AUDIT REPORT ON THE OPERATIONS OF ISIOLO COUNTY GOVERNMENT AND FORMER COUNCIL FOR THE PERIOD 1 JANUARY TO 30 JUNE 2013

EXECUTIVE SUMMARY

1.0 Introduction

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 Further, the County Government Act, 2012 Section 134 (1) repealed the Local Government Act, Cap 265, and thus effectively dissolving all the 175 Local Authorities and creating 47 County Governments.

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

1.3 This report covers operations of the County Government of Isiolo comprising the County Executive and County Assembly and the defunct County Council of Isiolo.

2.0 Audit Objectives

The audit covered the County Executive and County Assembly and the former County Council of Isiolo transactions for the period 1st January to 30th 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

2.1 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.

3.0 Key Audit Findings

Isiolo County Executive and County Assembly

3.1 Failure to take over the Defunct County Council of Isiolo

The County Government of Isiolo had not officially taken over the assets and liabilities of the former County Council of Isiolo as at the time of audit conclusion on 13 September, 2013, contrary to instructions issued by the Ministry of Local Government vide Circular No. MLG/1333/TY/52 of 18th February, 2013. Arrangements should be made by Transition Authority to have assets and liabilities of the former County Council handed over to the County Government.

3.2 Cash and Bank Balances

Three bank accounts namely, Main Account, Game Account and LATF Account formerly operated by the defunct County Council of Isiolo were closed on 26 June 2013, in total disregard of the County Governments Public Finance Management Transition Act, 2013 which required that the bank accounts be closed and reconciliations done within three months w.e.f 5th March 2013. Further, the County Government maintained one cashbook which was used to record transactions of both the Executive and the County Assembly, although these are distinct accounting units within the county separate cashbooks should be opened and maintained for each unit.

3.3 Undelivered Motor Vehicle

The County Government procured and fully paid for two motor vehicles costing a total of Kshs.16,330,472 from Toyota Kenya Limited on 28th June 2013. However, one of the vehicles costing Kshs.7,841,383 had not been delivered as at the time of audit on 13th September, 2013. The whereabouts of the vehicle should be established and proper explanation provided for effecting full payment before delivery of the vehicle.

3.4 Revenue Collection, Banking and Maintenance of Records

Revenue totaling Kshs.22,645,217 collected by the County Government during the period 13th April to 11th June 2013 was banked into the defunct Isiolo County Council Main Account (Kshs.12,319,423), Game Account (Kshs.9,737,794) and Housing Account(Kshs.588,000), instead of the County Government Exchequer Account opened on 13 April 2013 at Kenya Commercial Bank-Isiolo.

Further, **revenue** collection control sheets were not checked by a senior officer to confirm accuracy of revenue collected. The sheets did not show official receipt

numbers issued by the cashier against surrender of revenue collected, casting doubt as to whether all revenue collected using the control sheets was accounted for. Internal controls should be strengthened in future to avoid possible loss of revenue through pilferages.

A reconciliation of revenue collected through LAIFOMS with banking done between 5 March 2013 and 30 June 2013 revealed under-banking of Kshs.14,133,524. Although the management confirmed that through internal mechanisms, they had noted that not all revenue was banked intact, proper systems should be put in place to ensure that all revenue collections are banked intact.

3.5 Irregular Payment of Medical Bills

An amount of Kshs.790,950 was used to pay medical bills for a Member of the County Assembly of Isiolo for medical services received from some two hospitals. However, documentations supporting expenditure of Kshs.190,950 indicated that the transaction was recorded in the cashbook and cheque drawn on 28 June 2013 yet both the Invoice and Internal Memo were dated 30 June 2013. Also, the payment was made to another member of the County Assembly and not directly to the Hospital that raised the invoice. Further, another payment made on 28 June 2013 for Kshs.600,000 was effected in the cashbook and the cheque drawn on 28 June 2013 yet the request, which could not be ascertained whether it was granted, was dated 29 June 2013. Proper procedures should be put in place to guide management on medical benefits for County officials.

3.6 Implementation Status of Integrated Financial Management Information System (IFMIS) and G-Pay

As at the time of conclusion of the audit on 13 September 2013, the IFMIS installed at the County was not operational. Although the National Treasury had provided necessary machines for full implementation of the system, there was no connectivity to the internet. The staff at the treasury who had been trained on system could not use it due to lack of internet connectivity. Meanwhile, all payments are currently being done manually by use of cheques, a system which the Government intended to abolish by adopting IFMIS and G-Pay system. It is important that action is taken to address connectivity problem which is hindering usage of the two systems, and which if fully implemented will improve financial management within the county.

3.7 Information Technology (IT) Control Environment

Assessment made on how the County Government of Isiolo has put in place structures to govern and manage its information systems revealed the following weaknesses and amongst others:

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

IT organization structure

The ICT department at the county headquarters has two (2) employees who do not have defined roles and responsibilities for them to effectively manage the IT operations at the county.

Hardware

Assessment of the existence and management of the hardware infrastructure at the county revealed the following:

Computers and accessories

The County has been supplied with nineteen (19) personal computers by Treasury which will be solely used for IFMIS. It was however noted that the county does not have a comprehensive ICT inventory for all ICT assets; the inventory was only for the new machines. No inventory for the old ICT equipment. It is therefore unlikely that the ICT staff can effectively manage these ICT assets and provide the necessary hardware maintenance.

Data Centre

The County has one (1) data center (server room) at the County council of Isiolo offices. A physical inspection of the data center indicated the following:

i. The server room also houses highly flammable materials like cartons and papers.
ii. The room is also used as an office by the ICT staff.
iii. Use of a fan in the server room which is not adequate for air conditioning, humidity and temperature controls.
iv. Server is exposed to over-heating and there's no air-conditioning system to control the temperatures

v. There are no fire extinguishers within reach.

IFMIS and G-Pay

IFMIS is not operational in this County despite receiving the personal computers from the National Treasury. The personal computers that have been installed with IFMIS will use Orange CDMA Modems to connect to IFMIS through the Treasury's Virtual Private Network (VPN).

Currently, all payments are done manually by use of cheques.

3.8 Fixed Assets Records

The former County Council of Isiolo secured the services of a valuer who valued the former Council's non-current assets at Kshs.14,086,000,000 in January 2012. An assets register to record assets belonging to the defunct Local Authority and those being acquired by the county Government should be maintained and updated on regular basis.

3.9 Debtors

The debtors' balances as at 28 February 2013 totaling Kshs.79,217,994 transferred from the former Council remained unchanged as at 30 June 2013. However, appropriate systems for recording debtors by the County Government should be developed to ensure accuracy or records. Also, debt collection policy should be put in place to facilitate collection of County debts as and when they fall due.

3.10 Creditors

According to the statement of assets and liabilities as at 28 February 2013, the defunct local authority had creditors totaling Kshs.165,878,929. As at 30 June 2013, creditors balance was Kshs.195,229,710. The creditors should be promptly recorded

in a ledger indicating particulars of each creditors and the same updated on a regular basis.

3.11 Personnel Records

No staff handing over was done between the former Council and County Government, contrary to requirements by the County Governments Transition Authority Act, 2012. Further, no staff validation, and staff head count was carried out to confirm the credibility of the staff and personnel emolument bill taken over from the defunct County Council of Isiolo. Critical job evaluation and assessments should be done if not yet done to facilitate deployment of key staff to relevant departments. This will also assist in identification of skill gaps and recruitment of new staff with the required skills and qualifications.

3.12 Other Audit Findings

Irregular Issuance of Imprests

During the period 5 March to 30 June 2013, imprests totaling Kshs.1,593,800 were issued to various officials but without proper authorization. This is contrary to existing government regulations on imprests. Proper authorization of imprests should be ensured in future to avoid issuing imprests for unofficial purposes.

Unsupported Allowances

During the period between March and June 2013, an amount of Kshs.1,074,500 was paid to Isiolo County Assembly members as sitting, travelling and subsistence allowances, but without proper supporting documents. The County Government should in future ensure that all payments are made for official purposes only and properly supported with relevant and authentic documentation.

Doubtful payment

Isiolo County Assembly paid a total of Kshs.595,500 on 25 June 2013 to an official of the County for a 'meet the people tour' and sitting allowances. However, original supporting documents were not provided for audit confirmation, contrary to requirements of government financial regulations and procedures. It is re-interated that all payments made by the County Government should be properly supported.

Defunct County Council of Isiolo

3.13 Improper Handing Over to Transition Authority/County Government

There was no proper handing over of the former County Council of Isiolo assets and liabilities to the Transition Authority as required by the Ministry of Local Government Circular No. MLG/1333/TY/52 of 18 February, 2013. As result, the County Government has no records of assets and liabilities owned by the former Isiolo County Council as well as other outstanding debts. The Transition Authority should arrange for proper handing over of assets, liabilities and staff of the former County Council to the County Government to enable the County Government have a basis of opening balances reflected in its books of account.

3.14 Cash and Bank Balances

The County Council of Isiolo operated nine (9) bank accounts at various commercial banks. However, only balances totalling Kshs.3,768,371 held in some six accounts were transferred to the County Council of Isiolo Main Account held at Consolidated Bank on 21 March, 2013 when the accounts were closed. The County Government continued to operate the remaining three (3) accounts which were closed on 26 June 2013, and the balances totaling Kshs.13,230,219 transferred to Isiolo County Government Revenue Account held at KCB Isiolo Branch. This was contrary to which required that accounts of defunct local authorities be closed on 5th March 2013

or upon expiry of three months at the end of the month of May 2013 to finalize reconciliations, considering that the Council was dissolved on 28 February 2013.

3.15 Withdrawal Made From Council Bank Accounts after Transition

Withdrawals totaling Kshs.13,398,429.00 were made from the Council's various accounts between the month of March and April, 2013 to pay for various goods and service.

The above expenditure was however charged on the Council Account instead of the County Government Account. It has also not been properly explained why the huge expenditure had to be incurred after the Council ceased to exist.

3.16 Financing of Council's Operations Using Bank Overdraft Facility

The County Council of Isiolo Finance, Staff and General Purpose Committee in its meeting of 24 November 2010 noted that the Game Account held at Consolidated Bank had been overdrawn by Kshs.3,078,532, without authority from the Minister of Local Government. In a bid to formalize this irregularity, the Committee sought approval for Kshs.4,000,000.00 bank overdraft which was approved in December 2010. However, by January 2013, the overdraft balance had increased to Kshs.10,778,856, therefore exceeding the approved limit by Kshs.6,778,855. Financing of Council activities through overdraft facilities is an expensive affair which should be avoided through prudent financial management.

3.17 Debtors-Outstanding Plot Rates and Rents

The County Council of Isiolo had outstanding plot rents and rates totaling Kshs.79,217,994 as at 28 February 2013. However, debtors' registers were not updated and the LAIFOM system was similarly not up to date, raising doubt on accuracy of the debtors' balances as at 28th February 2013. As earlier recommended

debtors' ledger should be updated regularly to reflect true position of the balances at any given time. Debt collection policy should also be put in place to ensure that debts are collected as and when they fall due.

3.18 Outstanding Creditors/Payables

The list of creditors availed for audit indicated a sum of Kshs.172,548,980 outstanding as at 31 December 2012, and increased to Kshs.165,878,929 as at 28 February 2013.The amount however, includes salary arrears totaling Kshs. 3,486,740 whose source documents were not availed for audit review and therefore, authenticity of this particular amount could not be confirmed. The Creditors' ledger should be updated in order to reflect accurate creditors' position to avoid payments being made to fictitious suppliers and ghost employees. Authenticity of salary arrears should also be confirmed before payments are made.

3.19 Ownership of Motor Vehicles

The County Council of Isiolo had seventeen (17) motor vehicles and one (1) motor cycle, all valued at Kshs.26,448,500 according to the valuation report dated January 2012. However, Motor Vehicle Registration No. KAQ 460E Land Rover valued at Kshs.420,000 was registered in the name of British Army Peace Support Team, while GK 507U Shovel Tractor Fiat Alis valued at Kshs.960,000 had no log book for confirmation of ownership.

Motor Cycle Registration No. KBL 046G costing Kshs.361,530 was reportedly stolen from the Council's compound between 6th and 8th December 2012. No official loss report was made to the then Ministry of Local Government, and it had no log book. In the absence of registration documents, the Council was never compensated for the lost motor cycle. A follow-up should be made to obtain.

Ownership documents for all motor vehicles and proper custody of County Government properties should also be ensured in future to prevent occurrence of theft.

3.20 Failure to enter into Formal Agreement with Revenue Collection Agent

Kenya Association of Tour Operators (KATO) was appointed selling agents for Buffalo Springs and Shaba National Reserves entry tickets through a contract signed with the Council in February, 1995. KATO was to stock tickets, vet the tour operators to whom tickets were sold, submit to the Council an analysis of the ticket sales on a weekly basis, and pay the Council equivalent amount of sales on a weekly basis. The Council in return was to pay KATO by way of commission at the rate of four (4) per centum of the face value of all tickets. The agreement which was valid for twenty four (24) months up to 2nd February, 1997 had however not been renewed as at the time of audit in September 2013. This omission may subject the County Government to court cases due to breach of contractual obligations.

3.21 Under-banking of Revenue Kshs.6,129,048.78

Revenue collected by the defunct County Council of Isiolo was banked mainly in Housing, Main and Game accounts held at Consolidated Bank. During the period 1 January to 30 June 2013 total revenues collected and recorded in LAIFOMS amounted to Kshs.60,688,621. However, a review of the bank statements of the respective accounts revealed that only Kshs.53,716,783 were banked in these accounts, resulting to unexplained under banking of Kshs.6,129,047. Proper reconciliations should be done between bank records and LAIFORM to establish the correct position of revenue not banked.

3.22 Re-allocation of Local Authority Transfer Funds (LATF)

The former County Council of Isiolo received LATF totaling Kshs.72,811,543 for the financial year 2012/2013 on 22 February 2013 through the LATF account maintained at Barclays Bank of Kenya. The cashbook showed that a firm was paid Kshs.15,000,000 on 28 February 2013 in respect of valuation of assets done in January, 2012 although this was not among capital projects earmarked for implementation during 2012/2013. Re-allocation of LATF funds is contrary to the enabling legislation and should only be done with appropriate approval.

3.23 Consultancies-Irregular Payments of Legal Fees

Legal fees totalling Kshs.1,113,195 was paid to a firm of Advocates on 17 January 2013 and 26 February 2013. The payments were however not supported by any instructions given to the lawyers from the Council for representation in courts. In addition, no known court cases were documented in respect of which the Council was suing or defending itself, while some of the fee notes issued did not indicate the nature or the basis on which the fee was raised such as dates of attendance of court, filling service e.t.c. The expenditure should be investigated to establish the basis of the payments and recoveries made for those not supported with adequate evidence.

3.24 Personnel Records/ Payroll

Personnel emolument (Gross Pay) for the Council workers decreased by Kshs.2,797,558 from Kshs.8,012,678 as at 30 June 2012 to Kshs.5,215,120 as at 28 February 2013.This was as a result of suspension of twenty six (26) employees (Revenue Clerks) at various points of revenue collection on 6 September, 2012 for failure to surrender receipt books.

Further, the former County Council of Isiolo had 246 staff under its employment as at 31 December 2012. However, the staff was not officially handed over by the Council's management to Transitional Authority, and no validations of employment documents or head count seem to have been done. The County Government should conduct an audit of the personnel inherited from the Council and conduct job evaluation to ascertain the optimum staff and skills requirements for efficient operation in future.

3.25 Doubtful Payments on Consultancy Service

A consulting firm was paid Kshs.650,000 in February 2013 but propriety of the expenditure could not be confirmed since no terms of reference defining measurable deliverables that would be received on these consultancy services was seen. Further, no request for expression of interest from various consultancy firms was made. The schedule of work carried out and the reports generated after the engagement of the consultants were not availed for audit. This raised doubt on delivery of services paid for and whether value for money was realized from the expenditure. Procurement procedures outlined in the Public Procurement and Disposal Act, 2005 should be adhered to when procuring consultancy services.

3.26 Procurement of Goods and Services

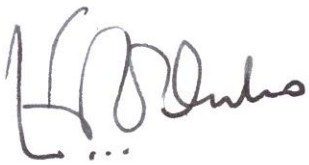
The County Council of Isiolo floated procurement law and regulations by not preparing an annual procurement plan for the year 2012/2013, not observing the need to base procurement on purchase requisitions from the user departments/sections, and also lacked an internal procurement manual, administrative guidelines and best practices to guide staff working in the department. However, for efficient and effective operations, the County Government should develop an annual

procurement plan which should be aligned to the annual budget in accordance with the procurement law.

3.27 Conclusion

The foregoing observations clearly indicate that the process of taking over of assets and liabilities, including staff of the former Council was not properly handled due to apparent lack of leadership by officials of Transition Authority who had the responsibility to ensure a smooth and seemless 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 PFMA, 2012. Expenditure should be incurred in accordance with the requirements of the Public Finance Management Act, 2012 and for the benefit of the tax payers.

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



Edward. R. O. Ouko, CBS

AUDITOR-GENERAL

22 November, 2013

DETAILED AUDIT REPORT ON OPERATIONS OF COUNTY GOVERNMENT OF ISIOLO EXECUTIVE, COUNTY ASSEMBLY AND DEFUNCT COUNTY COUNCIL OF ISIOLO FOR THE PERIOD JANUARY TO 30 JUNE 2013

1.0 Audit Objectives

The following were the main audit objectives:

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

2.0 Key Audit Findings

Isiolo County Executive and Assembly

2.1 Failure to take over the Defunct County Council of Isiolo

The County Government of Isiolo had not taken over the assets and liabilities of the former County Council of Isiolo as at the time of audit conclusion on 13 September, 2013. The County Government continued utilizing assets formerly owned by the Council, some of which were income generating although ownership of the same had not been transferred from the former local authority. This may have comprised proper accountability of revenue generated from these assets during the transition period.

Recommendation

The Transition Authority should ensure that accurate statement of assets and liabilities as at 28th February 2013, is prepared by the relevant Council officials and that a proper handing over/taking over is done to enable the County Government have a basis of opening balances to be recorded in the books of account.

2.2 Cash and Bank Balances

Failure to Close Bank Accounts

The County Government opened the following bank accounts as required by the County Governments Public Finance Management Act, 2013:-

(i) County Revenue Account at Kenya Commercial Bank in May 2013.

(ii) County Government Exchequer Account at Consolidated Bank on 13 April 2013.

However, the County Government continued to operate three bank accounts of the defunct local authority even after opening the above bank accounts, in total disregard of the requirements of the County Government Public Finance Management

Transition Act, 2013.The three accounts namely; Main Account (Kshs.6,974,638.40), Game Account (Kshs.5,966,200.30) and LATF Account (Kshs.289.380.45) were closed on 26 June 2013 and the balances transferred to Isiolo County Government Revenue Account. No proper explanation has been provided for the prolonged use of County Council accounts, contrary to the law.

a) Failure to Maintain Receipts Cash Book

During the period 11 June 2013 to 30 June 2013, the County Government collected revenue totaling to Kshs.4,896,108.45. However, a receipts cash book for recording the revenue was not maintained. Also, only one cashbook was operated for recording transactions of both the County Government and County Assembly, instead of separate cash books.

b) Failure to carry out board of survey on cash on hand and bank balances

The accounting officer did not arrange for a board of survey to examine and verify cash on hand and bank balances at the close of business on 30 June 2013, contrary to requirements of government financial regulations and procedures. The board of survey on cash and bank balances assists in confirming accuracy of these balances as at the close of the year.

Recommendations

(i) A receipts cashbook should be maintained for prompt recording of all revenue collected by the County. The revenues should be recorded in the cashbook and banked intact.

(ii) Separate cash books should be maintained for the County Government and County Assembly to ensure proper accountability of funds received and by each unit.

(iii) The County Government should ensure that cash board of survey is conducted at the closure of every financial year.

2.3 Undelivered Motor vehicle

The County Tender Committee meeting held on 28 May 2013 under Minute No. 6/2/2012-2013 (Purchase of County Assembly Vehicles) discussed and approved the award of supply of two motor vehicles as contained in the Supply Branch Circular No. RO4/2011-2012 (Supply of Motor Vehicles Contract) dated 29 November 2011, to M/s Toyota Kenya Limited for a Toyota Prado KDJ 150TXY Manual and Toyota Land cruiser HZJ 76R (Japan) for Kshs.8,489,089.00 and Kshs.7,841,383.00 respectively. The following was noted:

(i) Local Purchase Order (LPO) No. 1926967 of 28 June 2013 was raised by the County Government of Isiolo.

(ii) Payment voucher No. 424 of 28 June 2013 and Cheque No. 000158 for Kshs 16,532,215 were used to pay M/s Toyota Kenya Ltd of P.O Box 3391-00506 Nairobi for delivery of the two vehicles.

(iii) Toyota Prado Registration No. KBU 666T Engine S/No 1KD-2259208 was inspected by the Ministry of Transport and Infrastructure and Pre-delivery Inspection Report issued on 13 August 2013 under covering letter Ref MOT&I/MTD/QMS/VOLII/409. The vehicle was delivered to Isiolo County Government and allocated for use by the Speaker of the Isiolo County Assembly. The vehicle was physically verified during audit inspection.

(iv) The second vehicle, a Toyota Land Cruiser had not been delivered as at the time of audit exit on 13 September 2013, almost 90 days after the payment, contrary to the Public Procurement and Disposal Act, 2005 which requires that payment for goods/services should be made upon receipt of the goods/services.

Recommendation

The Public Procurement and Disposal Act, 2005 and related 2006 regulations requirements should be followed on all procurements made by the County Government. Evidence of subsequent delivery of the vehicle to be provided for audit confirmation, and should include Pre-delivery Inspection Report from the relevant authorities.

2.4 Revenue Collection, Bankings and Maintenance of Records

a) The County Government Exchequer Account at the Kenya Commercial Bank-Isiolo and into which revenue collections were supposed to be banked intact was opened on 13 April 2013. However, no revenue was banked in this account until 11 June 2013. The revenue collected during this period totalling Kshs.22,645,217 was instead banked into the defunct Local Authority Main Account (Kshs.12,319,423), Game Account (Kshs.9,737,794) and Housing Account (Kshs.588,000). This contravened requirements of the Public Finance Management Act, 2012 that all monies raised or received by or on behalf of the County Government is paid into the County Revenue Fund.

Poor Maintenance of Revenue Collection Control Sheets

b) Examination of revenue collection control sheets revealed the following control weaknesses:-

(i) There was no evidence that the sheets were checked by a senior officer to confirm accuracy of revenue collected.

(ii) The sheets did not indicate official receipt numbers issued by the cashier against surrender of revenue collected. This may lead to loss of revenue from under reporting.

Recommendations

(i) All revenue collected or receipted on behalf of the County Government should be banked intact in the County Revenue Fund.

(i) The County Government should put in place a strong internal control system to ensure existence of proper accountability at every stage in the revenue collection cycle.

(iii) Revenue collection control sheets should be maintained by the Revenue Officer, who should ensure that official receipts are issued to revenue collectors whenever revenue is surrendered.

2.5 Irregular Payment of Medical Bills

An amount of Kshs.790,950 was used to pay medical bills for a Member of the County Assembly of Isiolo, through two payment vouchers as follows:

a) Voucher No. 487 and cheque No. 00200 both of 28 June, 2013 were used to pay Kshs.190,950 Supporting documentation used to effect this payment was an Internal Memo dated 30 June 2013, from the Speaker of Isiolo County Assembly to the Chief Finance Officer instructing that the payment be made as per the invoice dated 30 June 2013 for Kshs.190,950 from Waso Medical Services and Nursing Home of P.O. Box 652 Isiolo. The invoice indicated that the patient was admitted at the facility for ten (10) days from 20 June to 30 June 2013, at a total cost of Kshs.20,000. Other charges itemized in the invoice include; Infusion 6 litres (Kshs.9,000), Laboratory (Kshs.15,500), Treatment (Kshs.100,950), Doctors Fees (Kshs.10,000 for ten days) and Pharmacy (Kshs.35,000). The following was however, not explained:

(i) How the transaction was recorded in the cashbook and cheque drawn on 28 June 2013 yet both the Invoice and Internal Memo were dated 30 June 2013.

(ii) Why the payment was made to another member of the County Assembly and not directly to the Hospital that raised the invoice.

(iii) The specific treatment that the patient received since no hospital documents such as discharge summary were availed to authenticate amount of Kshs.100,950 charged on treatment.

b) Payment Voucher No. 490 and Cheque No. 000203 both of 28 June 2013 was used to pay Kshs.600,000 to Nairobi Hospital of P.O. Box 30026 Nairobi. Supporting documents used to effect this transaction were a letter reference ISL/CA/G/2/7/13 of 29 June 2013 from the Clerk of the County Assembly to the Governor requesting for medical assistance to a member of the County Assembly; an In-Patient Deposit Receipt No IDE6196/13 of 3 July 2013 and an interim bill from the hospital dated 4 July 2013.

However, the following could not be established:

(i) How the payment was effected in the cashbook and the cheque drawn on 28 June 2013 yet the request, which could not be ascertained whether it was granted, was dated 29 June 2013.

(ii) The vote from which the money was obtained since the only approved and available vote on medical fund had a provision of Kshs.200,000, which had been exhausted by the above mentioned transaction of Kshs.190,950.

(iii) Why supporting documents dated after the cheque had been drawn were used to support the payment.

In view of the above unsatisfactory circumstances, propriety of the expenditure of Kshs.790,950 incurred on medical bills could not be confirmed.

Recommendation

The expenditure should be investigated to confirm that it was a proper charge to public funds. Also, proper systems and procedures on medical benefits to staff and other county officials should be developed to guide management in approving such payments in future.

2.6 Implementation Status of Integrated Financial Management Information System (IFMIS) at Isiolo County Treasury

As at the time of conclusion of the audit on 13 September 2013, the IFMIS was not operational. Although the National Treasury had provided necessary equipment for full implementation of the system, there was no connectivity to the internet. An interview with the Chief Finance Officer and Head of County Treasury revealed that, staff in the treasury had received necessary training but could not use the system due to lack of internet connectivity.

Recommendation

The National Treasury should expeditiously explore ways to overcome the internet connectivity challenge which is hindering usage of IFMIS already installed at the County. The Management should take necessary action to ensure full implementation of IFMIS for efficient and effective management of financial operations at the County.

2.7 Information Technology (IT) Control Environment

Assessment of how the County has put in place structure to govern and manage the information systems in place revealed the following:

(a) 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

(b) IT organization structure

The ICT department at the county headquarters has two (2) employees who do not have defined roles and responsibilities for them to effectively manage the IT operations at the county.

(c) Hardware

Assessment of the existence and management of the hardware infrastructure at the county revealed the following:

(i) Computers and accessories

The County has been supplied with nineteen (19) personal computers by Treasury which will be solely used for IFMIS. It was however noted that the county does not have a comprehensive ICT inventory for all ICT assets; the inventory was only for the new machines. No inventory for the old ICT equipment. It is therefore unlikely

that the ICT staff can effectively manage these ICT assets and provide the necessary hardware maintenance.

(ii) Data Centre

The County has one (1) data center (server room) at the County council of Isiolo offices. A physical inspection of the data center indicated the following:

(i) The server room also houses highly flammable materials like cartons and papers.
(ii) The room is also used as an office by the ICT staff.
(iii) Use of a fan in the server room which is not adequate for air conditioning, humidity and temperature controls.
(iv) Server is exposed to over-heating and there's no air-conditioning system to control the temperatures.
(v) There are no fire extinguishers within reach.

(d) Network connectivity

There are stand-alone local area networks (LANs) at the County Treasury's offices, Governor's office and the lands offices, where the property rates are billed. In addition, there exists a wireless network at the headquarters.

(e) Local Authorities Information Financial Management System (LAIFOMS)

LAIFOMS is operational in the former County Council of Isiolo office and has mainly been used in revenue collection, issuance of single business permits, property management and recording of accountable documents. The following weaknesses were however noted:-

i) Lack of Segregation of Duties

Analysis of the user set-up in LAIFOMS indicated that segregation of duties had been compromised as the users had been granted conflicting roles. For instance, the two system administrators have access to other modules that include receipting and issuing single business permits. Further analysis of the event activity logs revealed that the accountant, who is also the system administrator, collects cash at his workstation as opposed to the cash office. There was no evidence availed to confirm that these collections were subsequently banked intact. This may lead to loss.

ii) Irregular Changes of Single Business Permit Codes

Review of the event activity logs from LAIFOMS revealed that users have been irregularly changing the single business permits codes without any formal approval. The implication of these changes is that the officers could lower the permit fees payable and consequently deny the County government revenue.

iii) Non-accounting for Accountable Documents

The major source of revenue for Isiolo County is collections from the game parks from the nearby conservancy. The revenue officers are issued with accountable revenue books through LAIFOMS and are expected to account for all the books by remitting revenue of equivalent amount. Analysis of accountable documents issued in relation to the game parks, however, revealed that revenue officers do not provide full accountability in respect of books issued to them. Also, revenue officers are sometimes issued with new receipt books without accounting for previously issued books.

f) Integrated Personnel Payroll Database (IPPD)

The County Government of Isiolo has since consolidated employees' complement and payroll for all its officers. The first consolidated payroll to be processed and paid was for the month of July 2013. During the audit, we extracted the employees' details and payroll from LAIFOMS for the month of June 2013. The data extracted was compared with the July 2013 IPPD payroll and our analysis revealed the following:

(i) Officers' Earnings in LAIFOMS Different from IPPD

A comparison between officers paid in the consolidated IPPD payroll for July 2013 against the LAIFOMS' payroll for June 2013, revealed that there are officers whose earnings were inconsistent for the two consecutive months as analysed below:-

Payroll NO	ID NO		Earning	Amount in IPPD	Amount in LAIFOMS	Difference
19840000071	364029	Mr. Mohamed Duba Fichoftu	Basic pay	34,350.00	22,610.00	11,740.00
19950003979	1261292	Mr. Hussein Mohamed Bardad	House Allowance	1,300.00	13,000.00	(11,700.00)
19960002644	8686	Mr. Abdi Diba Dida	House Allowance	13,000.00	15,000.00	(2,000.00)
19830001986	1090784	Mr. Dida Duba Liban	Commutter Allowance	1,600.00	1,750.00	(150.00)
19950003960	367373	Mr. Abdullahi Roba Abdi	Commutter Allowance	3,000.00	1,600.00	1,400.00
19950004181	12874183	Mr. Yussuf Haji Billa	Commutter Allowance	2,600.00	1,600.00	1,000.00
19950004225	12876066	Mr. Ali Ture Ture	Commutter Allowance	2,800.00	1,600.00	1,200.00

These inconsistencies should be investigated and necessary action taken.

Recommendations

In order to mitigate the above risks, the following recommendations are made:

- ***The County Government should develop and approve key ICT documents that would ensure proper management of IT operations. The documents will govern key IT operations including use of passwords, back-ups, maintenance of IT equipment, and continuity of IT critical operations in the event of a disaster and network management. In addition, the documents should also be circulated to staff so as to create awareness and ensure compliance.***
- ***The County should acquire services of all IT expert to develop procedures to be followed in changing of business codes so as to ensure that the process is properly managed and controlled.***
- ***The management should ensure that revenue collected and banked is captured in the LAIFOMS to facilitate timely reconciliations.***
- ***The ICT department, as strategic resource, should be adequately staffed and with defined roles to enable effective management of IT operations of the County.***
- ***The server room should have adequate physical and environmental controls.***

2.8 Fixed Assets Records

The former County Council of Isiolo secured the services of a valuer who valued its non-current assets at Kshs.14,086,000,000, in January 2012. However, an assets register was not being maintained to ensure prompt recording of the assets.

Recommendation

A proper system for recording assets inherited from the former Council should be developed and the assets properly labeled and recorded. The records should also be updated on regular basis as the County continues to procure other assets.

2.9 Debtors

The debtors' balances as at 28 February 2013 totaling Kshs.79,217,994 remained unchanged as at 30 June 2013.

Recommendation

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

2.10 Creditors

According to the statement of assets and liabilities as at 28 February 2013, the defunct local authority had creditors totaling Kshs.165,878,929. As at 30 June 2013, creditors balance was Kshs.195,229,710, indicating an increase of Kshs.29,350,781. However, accuracy of this balance could not be confirmed in the absence of a creditors' ledger indicating specific details of the organisations, firms or persons to which the payments are due.

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.

2.11 Personnel Records

The staff emolument increased from Kshs.8,210,288 as at 28 February 2013 to Kshs.12,372,010 as at 30 June 2013. The increase by Kshs.4,161,722 was attributed to appointment of new staff and Members of the County Assembly after the general election. However, comparison of the payroll for the month of February 2013 figure

of Kshs.8,210,288 and that of June 2013 of Kshs.12,372,010 less payments totaling to Kshs.4,271,103 made to newly recruited staff, revealed un explained difference of Kshs.109,381. Further, staff handing over was not done as required by the County Governments Transition Authority Act, 2012 since no staff validation and staff head count was carried out to confirm the credibility of the staff and personnel emolument bill taken over from the defunct County Council of Isiolo.

Recommendation

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

2.12 Other Audit Findings

i) Irregular Issuance of Imprests

During the period 5 March to 30 June 2013, imprests totaling Kshs.1,593,800.00 were issued to various officials but without proper authorization. The warrants were not processed procedurally since they had not been signed by relevant officers in the required sections. Further, the imprest warrant register maintained was incomplete since it did not indicate the surrender dates. Also, the imprests were issued for purchase of goods/services which could have been procured through the normal laid down procurement procedures. Further, no records were maintained to show that the goods/services procured were received and used for the intended purposes.

It was also observed that some officers were issued with additional imprests before surrendering previous ones held, contrary to Chapter 5.6.6 of the Government Financial Regulations and Procedures.

Recommendations

(i) No imprest should be issued for procurement of goods and services. All procurement of goods and services should be done in accordance with the provisions of the Public Procurement and Disposal Act, 2005.

(ii) Requisition orders for items to be procured should originate from the user departments and items supplied recorded in the relevant store records. Similarly, issuing of items from the stores should be properly documented.

ii) Unsupported Allowances

During the period between March and June 2013, an amount of Kshs.1,074,500 was paid to Isiolo County Assembly members as sitting, travelling and subsistence allowances. The payments were however not supported by documents such as invitation letters, programs of workshops attended, bus tickets or vehicle work tickets for confirmation of purposes of the imprests, the venues and actual attendance by the members. Only internal memos from departmental heads were used to support these travel expenditures. In the absence of evidence to confirm that the journeys were undertaken only for official purposes, the expenditure of Kshs.1,074,500 cannot be considered a proper charge to public funds.

Recommendation

Payments should be made for official purposes only and properly supported with relevant and authentic documentation. A proper system should be put in place to guide on procedural approval of all types of allowances.

iii) Doubtful Payment

Isiolo County Assembly paid Kshs.456,000 and Kshs.139,500 vide Payment Vouchers No. 479 and 480 respectively, both of 25 June 2013 to an official of the County for a 'meet the people tour' and sitting allowances, respectively. However, only photocopied schedules were attached in support of these payments instead of the originals. No explanation was provided for the anomaly.

Recommendation

All payments made by the County Government should be supported with original documents for confirmation of authenticity and propriety of expenditure incurred.

Defunct County Council of Isiolo

2.13 Improper Handing Over to the County Government

There was no proper handing over of the former County Council of Isiolo assets and liabilities to the Transition Authority as required by the Ministry of Local Government Circular No. MLG/1333/TY/52 of 18 February, 2013. This was apparently because the Transition Authority only instructed the former employees to hand over official documents, assets and office equipment in their possession as at 28th February, 2013. Also, the statement prepared did not set out a debt management strategy and also assumption underlying the debt management strategy and an analysis of sustainability of the amount of debt actual and potential, as required by the above circular. Therefore, accuracy of assets and liabilities handed over to the County Government and which should for the opening balances in the books of account could not be confirmed.

Recommendations

(i) The Transition Authority to 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 inherits genuine debts.

2.14 Cash and Bank Balances

The County Council of Isiolo operated Nine (9) bank accounts namely; LATF Account held at Barclays Bank-Meru Branch, LATF Account, Main Account, Game Account, Housing Account., Community Conservation Account, Kenya Roads Board Account, Assets Renewals Fund Account, all held at Consolidated Bank of Kenya-Isiolo Branch and a Bursary Fund Account at Equity Bank-Isiolo. Six (6) of bank accounts listed below were all closed on 21 March 2013 and bank balances transferred to the County Council of Isiolo Main Account held at Consolidated Bank:-

Account Name	Account No.	Bank	Balance – Kshs	Remarks
LATF	012/00/484869/00	Consolidated	2,223,134.50	
Housing	012/00/481270/00	Consolidated	735,949.35	
Community Conservation	012/00/482405/00	Consolidated	495,370.30	
Kenya Roads Board	012/00/481364/00	Consolidated	-	Inactive since November 2012
Assets Renewals	0130148616500	Consolidated	155,875.10	
Bursary Funds Account	0410290663582	Equity	158,042.25	

The County Government however continued to operate the remaining three(3) accounts which were only closed on 26 June 2013, and the balances of the Main Account (Kshs.6,974,638), Game Account (Kshs.5,966,200) and LATF Account (Kshs.289,380) held at Barclays Bank transferred to Isiolo County Government Revenue Account No. 0120348685800 held at KCB Isiolo Branch.

Although monthly bank reconciliation statements for all the accounts were confirmed to have been prepared, no reason was given as to why the three bank accounts were not closed on 28 February 2013, or upon expiry of three months at the end of the month of May 2013 to finalize reconciliations as provided in the County Governments PFMT Act, 2013 considering that the Council was dissolved on 28 February 2013.

2.15 Withdrawals Made From Council Bank Accounts After Transition

Withdrawals amounting to Kshs.1,906,109 were made from the Councils Main Account in the month of March 2013 in respect to the following expenditure items:-

Particulars	**Amount (Kshs.)**
Travelling Allowances	798,000.00
Fuel	350,980.00
Stationeries	373,800.00
Motor Vehicle Repairs	166,432.00
Repair of Equipment	35,980.00
Water and Electricity Bills	60,933.00
Training Costs	24,040.00
Casual Wages	57,800.00

Salary Advances	38,144.00
Total	**1,906,109.00**

In the month of April 2013, withdrawals made from the Main Account totaled Kshs.1,998,492 in respect to fuel purchases, allowances and electricity bills of Kshs.521,970, Kshs.1,456,800 and Kshs.19,722 respectively. Also, an amount of Kshs.9,493,828 was withdrawn from the County Council of Isiolo Game Account in the month of April 2013 to pay for fuel worth Kshs.294,043 and the balance of Kshs.9,199,785 was used to pay Council staff salaries for the month of March 2013.

This brings the total withdrawals made from the Council's bank accounts during the months of March and April 2013 to Kshs.13,398,429. The expenditure was however charged from the Council Account instead of the County Government Account. It has also not been properly explained why the huge expenditure had to be incurred after the Council ceased to exist.

Recommendation

The provisions of the County Governments Public Finance Management Transition Act, 2013 should strictly be adhered to when effecting any transactions.

2.16 Financing of Council's Operations Using Bank Overdraft Facility

The County Council of Isiolo Finance, Staff and General Purpose Committee in its meeting of 24 November 2010 vide MIN NO.10/FSGP/NOV/10 noted that the Game Account held at Consolidated Bank had been overdrawn by Kshs.3,078,532, without necessary authority having been sought from the Minister of Local Government.

In a bid to formalize this irregularity, the meeting resolved to seek approval for Kshs.4,000,000.00 bank overdraft. The request was granted through letter Ref ISO/CC/ADM/3/VOL.1/168 of 20 December, 2010 from the County Council of Isiolo. A letter Ref. MLG 399-47/40 of 16 February 2011 from Office of the Deputy Prime Minister and Ministry of Local Government and signed on behalf of the Permanent Secretary, approved the Council's request to obtain a bank overdraft facility of Kshs.4,000,000. However, by January 2013, the overdraft balance stood at Kshs.10,778,856, therefore exceeding the approved limit by Kshs.6,778,855.

It is on account of this irregularity that on 11 January 2013, the overdraft was converted into loan of Kshs.8,000,000 from the same bank under a different Game Account Number.The move by the Council was not supported by the Finance Committee's or the Full Council's Resolutions since only a Letter of Offer from the Consolidated Bank Isiolo Branch dated 9 January 2013 and signed by the Chairman, County Clerk and County Treasurer on behalf of the County Council of Isiolo was provided for audit review.

It is imperative to note that, further payments for various services continued to be made from this account, and the overdraft balance stood at Kshs.8,878,832.79 as at 25 April 2013, but without any approval. The Council had paid Kshs.1,121,478 and Kshs.272, 863.25 on interest on bank overdraft and loan respectively, between the months of July 2012 to 26 June 2013, when the account was closed. Further, the overdraft and loan facilities were cleared/offset on 3 May 2013 by way of a direct funds transfer from the Transition Authority Isiolo Current Account of Kshs.4,950,000 and various direct deposits from sale of park tickets. Authority for clearing the overdraft facility using funds from Transition Authority and revenue from ticket sales was not made available for audit review.

Recommendation

Financing of an entity's activities through overdraft facilities is not cost effective and should be avoided through prudent financial management.

2.17 Debtors-Outstanding Plot Rates and Rents

(i) Undisclosed Salary in Advance

The Council submitted to the Transitional Authority debtors' balance as at 28 February 2013 of Kshs.79,217,994. However, the figure did not include salaries in advance totaling Kshs.76,600 advanced to some staff members but which had not been recovered from their salaries as at 28 February, 2013.

(ii) Plot Rates and Rents

Examination of the list of Council plot rents and rates availed for audit disclosed outstanding plot rents and rates totaling Kshs.79,217,994.00 as at 28 February 2013. It was also observed that debtors' registers were not updated and the LAIFOM system was similarly not up to date, raising doubt on accuracy of the debtors' balances as at 28th February 2013.

Recommendation

The County Government should ensure that the debtors' ledger is updated regularly in order to present the true position of the balances at any given time. Also, debt collection policy should be developed to facilitate prompt collection of debts as and when they fall due.

2.18 Outstanding Creditors/Payables

The list of creditors availed for audit indicated that a sum of Kshs.172,548,980 was outstanding as at 31 December 2012. As at 28 February 2013, total creditors balance amounted to Kshs.165,878,929. However, included in this amount were salary arrears totaling Kshs.3,486,740 whose source documents were not availed for audit review and therefore, authenticity of this particular amount could not be confirmed.

Recommendation

The Creditors ledger should be updated in order to reflect accurate creditors' position to avoid payments being made to fictitious suppliers and ghost employees.

2.19 Ownership of Motor Vehicles

The County Council of Isiolo had seventeen (17) motor vehicles and one (1) motor cycle, all valued at Kshs.26,448,500 as per the valuation report dated January 2012. However, Motor Vehicle Registration No. KAQ 460E Land Rover valued at Kshs.420,000 was registered in the name of British Army Peace Support Team, while GK 507U Shovel Tractor Fiat Alis valued at Kshs.960,000 had no log book for confirmation of ownership. These assets were, however, included in the Statement of Assets and Liabilities as at 28 February 2013.

Physical verification of the motor vehicles on 4 September 2013 disclosed that the two vehicles are currently grounded and parked at the Council's parking yard. Further, it was observed that Motor Cycle Registration No. KBL 046G purchased from Toyota Kenya Ltd in October 2011 at a cost of Kshs.361,530 was reportedly stolen from the Council's compound between 6th and 8th December 2012. However, no official loss report was made to the then Ministry of Local Government. In addition, it was noted that the Council had not obtained a log book for the motor

cycle from Kenya Revenue Authority. In the absence of registration documents, the Council was never compensated for the lost motor cycle.

Recommendation

Ownership documents for all motor vehicles should be obtained without any further delay while proper custody of County Government properties should be ensured in future.

Revenue Collection

2.20 Failures to enter into formal agreement with revenue collection agent

On 1 February 1995, the then Chairman and County Clerk of the Council, on behalf of the County Council of Isiolo, signed contractual obligations with Kenya Association of Tour Operators (KATO), having appointed them as selling agents for Buffalo Springs and Shaba National Reserves entry tickets. KATO was obliged to stock tickets, vet the tour operators to whom tickets were sold, submit to the Council an analysis of the ticket sales on a weekly basis and pay the Council equivalent amount of sales on a weekly basis. The Council in return was to pay KATO by way of commission at the rate of four (4) per centum of the face value of all tickets sold.

Although the duly signed agreement was valid for twenty four (24) months, it was observed that no renewal of the said agreement was done after the expiry of the initial one on 2nd February, 1997. The Council however continued to engage KATO as its revenue collection agent with the initially agreed commissions being paid by way of direct deductions from ticket sales and the balance deposited in the Council's bank account, but no formal agreement appeared to have been signed for this arrangement.

In the absence of a Contract Agreement signed between the Council and the Agent, it was not possible to ascertain how the Council's revenue was used to pay commissions, and more so how the accountable documents (tickets) entrusted to the agent were accounted for.

Recommendation

All contracts taken over by the County Government should be formalized so as to protect both parties in case of breach of contractual obligations.

2.21 Under-banking of Revenue

Revenue collected by the defunct County Council of Isiolo was banked mainly in Housing, Main and Game accounts held at Consolidated Bank. During the period 1 January to 30 June 2013 total revenues collected and recorded in LAIFOMS amounted to Kshs.60,688,621. However, a review of the bank statements of the respective accounts revealed that only Kshs.53,716,783.85 were banked in these accounts, resulting to unexplained under banking of Kshs.6,129,048.

Recommendation

(i) The County Government should ensure that revenue collected is banked intact as required by the Financial Regulations in force.

(ii) The under banking of Kshs.6,129,048 should be investigated or reconciled.

2.22 Re-allocation of Local Authority Transfer Funds (LATF)

The former County Council of Isiolo received LATF totaling Kshs.72,811,543 for the financial year 2012/2013 on 22 February 2013 through the LATF account maintained at Barclays Bank of Kenya. Examination of the cashbook revealed that a firm was paid Kshs.15,000,000 vide Cheque No. 100463 on 28 February 2013 in respect of

valuation of assets done in 2012. However, valuation of Council assets was not among capital projects earmarked for implementation during 2012/2013.

Further, while it was mandatory for the Council to include capital projects for implementation before the 2012/2013 budget could be approved, there was no evidence of authority sought from the then Minister of Local Government to re-allocate funds released for LATF projects to other uses. Also, a supplementary estimate or evidence of an attempt made by the Council to pass a resolution to revise the approved budget was not availed for audit review.

Recommendation

LATF funds should be applied for the implementation of approved projects and re-allocation of funds should be promptly approved as required by the existing regulations.

2.23 Consultancies - Irregular Payments of Legal Fees

Legal fees totalling Kshs.1,113,195 were paid to a firm of Advocates through payment vouchers No.1559 and 1560 both of 26 February 2013 and 0820 of 17 January 2013 for Kshs.323,895, Kshs.759,300 and Kshs.30,000 respectively. Perusal of legal matters records held at the former Council's office revealed that, the payments were not supported by any instructions given to the lawyers from the Council for representation in courts. In addition, no known court cases were documented in respect of which the Council was suing or defending itself. Further, some of the fee notes issued did not indicate the nature or the basis on which the fee was raised such as dates of attendance of court, filing service e.t.c.

Recommendation

The County Government should investigate the expenditure in order to establish the basis of the payments and recover those not supported with adequate evidence.

2.24 Personnel Records/ Payroll

Personnel emolument (Gross Pay) for the Council workers decreased by Kshs.2,797,558 from Kshs.8,012,678 as at 30 June 2012 to Kshs.5,215,120 as at 28 Feb.2013.This was as a result of suspension of twenty six (26) employees (Revenue Clerks) at various points of revenue collection on 6 September, 2012 for failure to surrender receipt books. Although twenty four (24) of the revenue clerks have since been reinstated after surrendering the books, two have not and they owe the former Council Kshs.612,500 in un-surrendered receipt books. The former County Council of Isiolo had 246 staff under its employment as at 31 December 2012. However, the staff was not officially handed over by the Council's management to Transitional Authority, and no validations of employment documents, seem to have been done.

Recommendation

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

2.25 Doubtful Payments on Consultancy Service

A consulting firm was paid Kshs.650,000.00 through payment voucher No. 1620 of 25 February 2013 and cheque No.100403. The payment was in respect of baseline survey on work environment, customer satisfaction, employees' satisfaction and conservancy. Perusal of Council records did not however show any terms of reference defining measurable deliverables that would be received on these consultancy services. Further, it was noted that the Council did not call for request for

expression of interest from various consultancy firms which could have offered the services at the most competitive prices, and also in order to determine the firms' qualifications and capacity to undertake this work. The schedule of work carried out and the reports generated after the engagement of the consultants were not availed for audit.

Consequently, it could not be ascertained that the consultancy service was properly sourced, that value for money was realized in the transaction and that the expenditure was a proper charge on public funds.

Recommendation

The expenditure should be investigated to confirm delivery of services. Also, procurement procedures should be adhered to when procuring consultancy services.

2.26 Procurement of Goods and Services

(i) The County Council of Isiolo did not prepare an annual procurement plan for the year 2012/2013 as required by the Public Procurement and Disposal Act, 2005

(ii) The Council flouted the procurement procedures by not observing the need to base procurement on purchase requisitions from the user departments/sections.

(iii) The Council did not have an internal procurement manual, administrative guidelines and best practices to help staff in the department.

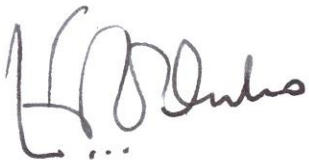
(iv) The Council too, did not appoint an inspection and acceptance committee to verify and confirm the quality and quantity of goods or services procured.

Recommendation

The County Government should ensure that it develops an annual procurement plan and a procurement manual, and appoint an Inspection and Acceptance Committee as required by the procurement law.

2.27 Conclusion

I wish to thank the management of Isiolo 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

22 November, 2013