

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

REPORT

OF

THE AUDITOR–GENERAL

ON THE

FINANCIAL OPERATIONS

OF

THE COUNTY GOVERNMENT OF
KIRINYAGA AND ITS
DEFUNCT LOCAL AUTHORITIES

FOR THE PERIOD
I JANUARY TO 30 JUNE 2013

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REPORT OF THE AUDITOR-GENERAL ON THE OPERATIONS OF KIRINYAGA COUNTY GOVERNMENT AND FORMER LOCAL AUTHORITIES FOR THE PERIOD 1 JANUARY TO 30 JUNE 2013

EXECUTIVE SUMMARY

1. Introduction

1.1 General

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 Further, the County Government Act, 2012 Section 134 (1) repealed the Local Government Act, Cap 265, and thus effectively dissolving all the 175 Local Authorities and creating 47 County Governments.

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

1.3 This report covers operations of the County Government of Kirinyaga, the defunct County Council of Kirinyaga, the defunct Municipal Council of Kerugoya/Kutus and the defunct Town Council of Sagana-Kagio.

1.4 The audit teams faced several constraints during the audits, including delay in getting various documents and non-availability of key staff of the former Local Authorities. These constraints resulted in delay in concluding the audits within the planned timelines.

2. Objective of the audit

The audit covered the County Government of Kirinyaga and its three defunct Local Authorities transactions for the period 1 January to 30 June, 2013 and took into account transactions before, during and after the transition period. The objective of the audit was to verify the county government's preparedness to receive and utilize devolved funds before, during and after the transition period. The terms of reference set for the audit included verifications and confirmations of transactions in respect to but not limited to the following areas:

- To confirm if there was a smooth and seamless transfer of cash and bank balances before, during and after transition to the County Government.

- Provide recommendations on current transitional challenges, internal controls, accounting and regulatory developments.
- To confirm smooth taking over of the former local authorities.
- To confirm accuracy and safety of cash and bank balances.
- Ascertain current Debtors and Supplier balances
- Confirm existence and ownership of motor vehicles and moveable assets.
- Check IPPD Payroll and establishment.
- Confirm recurrent and Development expenditure items
- Review procurement procedures
- Review ICT and G-Pay

3 Key Audit Findings

3.1 County Government Executive

3.1.1 Failure to Takeover the Defunct Local Authorities

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

3.1.2 Cash and Bank Balances

i) Failure to close Bank Accounts

The bank accounts of the former local authorities were not closed and balances transferred to the County Government Revenue Account by 28 February, 2013, the deadline set by the Transition Authority but were instead left open and operated by the former councils up to 27 June 2013. Failure to close bank accounts implied that

revenue collections continued to be banked in these accounts, and expenditure incurred, contrary to the law.

ii) Failure to Prepare Bank Reconciliation

The Kirinyaga County government opened a revenue account No.1140758497 held at KCB and sub revenue account No. 0420360844601 at Equity Bank into which revenues were being deposited. It was, however, observed that the cashbook was not updated and no monthly bank reconciliations were prepared. Without an up to date and reconciled cash book, irregular withdrawals can be made from the account and any errors might not be detected promptly.

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

3.1.3 Unvalued Fixed Assets

As at the time of audit, Kirinyaga County Government had not identified, recorded and ascertained the total non-current assets it owned which comprised of assets inherited from the defunct councils and new acquisitions. The existence, location and value of non-current assets after transition could not therefore, be ascertained.

3.1.4 Asset Ledgers not Maintained

Permanent Fixed Assets Register showing details of each moveable and non moveable assets of the County Government such as cost, identification, description and date of purchase were not maintained. There is risk of loss, misuse, pilferage and misappropriation of County assets.

3.1.5 Failure to Follow Proper Procurement Procedures

Review of procurement procedures applied by the County Government revealed weaknesses in the tendering and procurement of goods, equipment and works worth Kshs.31,469,210.

Although the prices charged were within the engineers estimated costs, the audit review revealed that request for quotations were sent to only four (4) binders instead of the minimum ten (10) required by the law.

The County Government should follow the procurement rules and regulations as laid down in the Act. Expenditure incurred during the transition period should be

investigated and ineligible expenditure recovered from culprits. Elaborate expenditure control and authorization procedures should be put in place.

3.1.6 Audit of Human Resource and IPPD Payroll and Establishment

All the staffs 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 dispensation. The qualification, experience and optimal number of staff required to run the County Government effectively, efficiently and economically was, therefore, not determined.

The County Government should carry out a head count. The County Government Organization Structure should be professionally made 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.

3.1.7 Double Payment of P.AY.E

Contrary to Section 8 (2)(h) and Section 8 (2) (a) of the County Government Public Financial Management Transition Act 2013 proper and accurate payroll records were not maintained in April 2013. Review of the April 2013 IPPD payroll and other relevant documents revealed a double paid PAYE Kshs.733,692.

3.1.8 Nugatory Payment on Penalties.

Contrary to Section of 5 (2) (a) of Income Tax Act CAP 470, Rev.2012 the defunct Municipal Council of Kerugoya-Kutus had outstanding penalties and interest amounting Kshs.897,535 as at 22 August, 2013 due to late submission and clearance of Council Tax Returns.

3.1.9 Unexplained Decline in Revenue

The total revenue collected in Kirinyaga County dropped from Kshs.39,417,394 in March 2013 to Kshs.22,533,965, Kshs.13,357,130 and Kshs.12,379,558 in April, May and June 2013 respectively. Negative variances of Kshs.5,304,826 and Kshs.8,812,480 were also recorded during the months of May and June 2013 respectively compared to similar months in year 2012.

3.1.10 Revenue Spend at Source

The defunct Town Council of Sagana collected revenue totaling to Kshs.7,232,055 during the period April to June 2013. Out of the total collection Kshs.123,310 was spent at source between April and June 2013. The amount had not been refunded as at the time of audit.

3.1.11 Missing Receipt Books

Audit of the County Council of Kirinyaga revealed revenue collection receipt books of various denomination with nominal value of Kshs.10,860,000 were missing from the safe and were also not recorded in the Counterfoil Receipt Books Register (CRBR). Review of revenue collection controls established by the County Government at various sub counties revealed weaknesses that may lead to revenue losses.

In addition, audit verification carried out in the defunct Town Council of Sagana/Kagio revealed that 16,200 private parking fee receipts of various denomination with estimated nominal value of Kshs.884,000 were also not recorded in the CRBR and, therefore, not accounted for.

3.1.12 ICT Audit

(a) Hardware

The County had received twenty-four (24) computers and special orange CDMA modems from The National Treasury (IFMIS Department) which will be solely used for IFMIS.

(b) Software

Integrated Financial Management Information System (IFMIS)

IFMIS has been installed in the County; however it is not being used in the day to day operations.

(c) G-Pay

The County is not using the G-Pay system. All payments are done manually by use of cheque.

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

LAIFOMS has been installed at the Kerugoya Municipal council, Kirinyaga County Council and Sagana Town Council offices. It is mostly used in revenue collection, issuance of single business permits, property management and recording of the accountable documents. Analysis of revenue collected against bankings revealed a system under banking of Kshs.63,227,218.00.

(e) Integrated Payroll and Personnel Database (IPPD)

The County has fully installed the IPPD system and processed its first payroll through the system in April 2013.

A comparison of the payrolls to assess completeness of data migrated into the IPPD system revealed that it was correctly done.

(f) ICT Governance and IT Control Environment

The ICT department has two employees who do not have defined roles and responsibilities on how to oversee the IT operations. The County is yet to develop key ICT documents that provide ICT governance at the county.

The County of Kirinyaga is still not using the IFMIS end to end, in procurement to pay process. The payments are still made via cheques and not through the G-Pay system. The IPPD is the only fully functioning system. LAIFOMS is used in Revenue collection.

The IFMIS department at National Treasury should ensure that the system is available to allow for end to end processing. 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 processes. The management should ensure that all revenue collected and banked should be captured in the LAIFOMS so that timely reconciliation can be done.

3.2 County Council of Kirinyaga

3.2.1 Cash and Bank Issues - Incomplete Cashbooks.

The defunct council operated 11 bank accounts before, during and after transition. The accuracy of the cashbook balances provided could not be ascertained because of incomplete cashbooks and unreliable bank reconciliation statements both before and during transition and non-maintenance of cashbooks after transition.

The defunct local authority, however, continued to operate the bank accounts it held before transition period resulting to unauthorized expenditure of Kshs.28,309,933 and Kshs.2,590,256 during and after transition respectively.

3.2.2 Fixed Assets

(a) Land Ownership

The value of noncurrent assets could not be ascertained since some parcels of land had not been valued and had no ownership documents. The County Government had not established a Fixed Assets Register for all the assets inherited from Kirinyaga County Council. There is risk the County Government losing property through misappropriation, misuse or theft.

(b) Unverified Laptops

Audit verification of movable assets revealed that three laptops included in the ledger worth Kshs.210,000 were not available for verification.

3.2.3 Debtors - Unconfirmed Debtors

Included as part of debtors as at 28 February 2013 are contribution in lieu of rates balance of Kshs.91,842,778 and salary advances Kshs.1,570,581. However, the debtor balance could not be confirmed in absence of proper debtor ledger at the defunct Council.

3.2.4 Revenue Collection

(a) Revenue Spend at Source

Examination of banking slips revealed that Kshs.3,334,541 was spent at source during the month of January 2013 representing 45% of the revenue collected. In addition, Kshs.3,261,384 being part of the revenue collected during the month of February was spent before banking. There is high risk of the County Government losing revenue due to laxity in revenue collection and accounting.

(b) Unexplained Decline in Revenue

There was a general decline in revenue collected by the defunct council compared to a similar period in year 2012. In year 2012 Kshs.8,925,576 and Kshs.12,131,608 was collected in January and February respectively. The result was a reduction of Kshs.1,512,013 in January and Kshs.423,819 in February. During the transition (March 2013), Kshs.24,350,225 was collected by the defunct County Council of Kirinyaga compared to Kshs.31,986,996 collected during the same month by the

council in year 2012. The effect was a decline variance of Kshs.7,636,771 representing 23.9% decline in revenue collected.

3.3 Municipal Council of Kerugoya/Kutus

3.3.1 Cash and Bank Issues

(a) Incomplete Cashbooks

The defunct council operated 6 bank accounts before, during and after transition. No cashbooks were maintained for the accounts and also monthly bank reconciliations were not prepared and as a result the correct cash and bank balance as at 28th February, 31 March, and 30 June 2013 could not be ascertained.

(b) Bank Accounts not Closed

The defunct local authority continued to operate the bank accounts it held before transition period resulting to unapproved expenditure of Kshs.17,406,978 and Kshs.1,959,021 during and after transition respectively.

3.3.2 Land Ownership

An inventory register relating to land and building availed for audit could not be relied upon to ascertain the value of land and buildings owned by the defunct Municipal Council of Kerugoya-Kutus both before and during transition. Whereas the council owned 13 parcels of land according to the register 11 of which were developed, their values and ownership status could not be ascertained in absence of valuation reports and title deeds.

3.4 Town Council of Sagana-Kagio

3.4.1 Cash and Bank Issues

Poor Maintenance of CashBooks

The defunct Town Council of Sagana/Kagio operated a total of 6 bank accounts before, during and after the transition period. It was noted that although cashbooks were maintained for each bank account, they had not been balanced for a long time. Consequently, the correct cash and bank balance could not be ascertained.

The cashbook should be updated and reconciliations prepared.

3.4.2 Motor Vehicles and Office Equipment

Poor Records of Fixed Assets

No values were provided for open market at Kagio with land registration no. Mwea / Kagio/133 measuring 2.83 acres. Movable assets which included assorted furniture, assorted electronic gadgets, motor vehicles, motor bike, donkey carts, tools, equipment and biological assets. Consequently, the value of assets held by the defunct council before the transition could not be ascertained.

3.4.3 Current Debtors and Supplier Balances

Unsupported Debtors

As at 28 February 2013, Plot rents were reflected in the books of the defunct Council as Kshs.7,658,254, Land rates amounted to Kshs.166,594,257 and contribution in lieu of rates Kshs.11,682,357. However, schedules and confirmation statements were not availed to support land rates, plot rents and contribution in lieu of rates both before and after transition.

3.4.4 IPPD Payroll and Establishment

(a) Unpaid PAYE

Although the defunct Town Council Management deducted PAYE from its employees, the same was not remitted to KRA thereby risking nugatory payments of penalties and interest. The management underpaid PAYE by Kshs.234,744 on payment of leave allowance and Kshs.83,771 deducted while processing payment voucher 1302-0075 but was not remitted to KRA making the total unpaid Kshs.334,215.

(b) Unexplained Increase in Wage Bill

The defunct council incurred unexplained significant increase in casual wages in January and February 2013. In January and February 2013 the Council incurred Kshs.1,029,897 or an average of Kshs.515,000 compared to an average of Kshs.150,000 incurred per month between August and December 2012. The management did not give explanation as to the cause of this increase.

3.4.5 Others Issues

(a) Control Over Revenue Collection

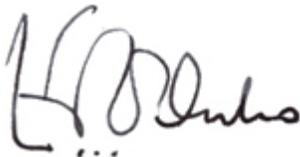
The defunct Town Council of Sagana/Kagio, saw its revenue drop by Kshs.3,621,395 in March 2013 compared to the same month in year 2012 representing a reduction by 51.7% drop. The decline in revenue should be investigated. There is risk of loss of revenue at the Sub County.

(b) Nugatory Payment – Penalties

The defunct Town Council of Sagana/Kagio incurred interest and penalties amounting Kshs.234,744 on late payment of PAYE deducted from November 2012 to February 2013 according to demand letter from the Kenya Revenue Authority dated 22 March 2013. Statutory deductions should be remitted to the relevant authorities in time to avoid such nugatory payments

4.0 CONCLUSION

Proper accounting and internal control system on cash and banking as well as other assets should be put in place. This is a requirement of the Public Sector Accounting Standards Board as emphasised by section 194 of the Public Finance Management Act 2012. Proper budgetary controls should be improved put in place to avoid unbudgeted for and irregular expenditure. Procurement procedures as required by Public Procurement and Disposal Act 2005 should be followed.



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

16 May 2014

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

1.0 OBJECTIVE OF THE AUDIT

The audit covered the County Government of Kirinyaga and its three defunct Local Authorities transactions for the period 1 January to 30 June, 2013 and took into account transactions before, during and after the transition period. The objective of the audit was to verify the county government's preparedness to receive and utilize devolved funds before, during and after the transition period. The terms of reference set for the audit included verifications and confirmations of transactions in respect to but not limited to the following areas:

- To confirm if there was a smooth and seamless transfer of cash and bank balances before, during and after transition to the County Government.
- Provide recommendations on current transitional challenges, internal controls, accounting and regulatory developments.
- To confirm smooth taking over of the former local authorities.
- To confirm accuracy and safety of cash and bank balances.
- Ascertain current Debtors and Supplier balances.
- Confirm existence and ownership of motor vehicles and moveable assets.
- Check IPPD Payroll and establishment.
- Confirm recurrent and Development expenditure items.
- Review procurement procedures
- Review ICT and G-Pay

2.0 AUDIT FINDINGS

2.1 THE COUNTY GOVERNMENT OF KIRINYAGA

2.1.1 Taking over from Local Authorities

The County Government of Kirinyaga had not formally taken over the assets and liabilities of the defunct Municipal Council of Kerugoya-Kutus, Town Council of Sagana-Kagio and County Council of Kirinyaga as the time of audit conclusion on 27 September, 2013. This is contrary to Transition Authority circular dated 18 February, 2013. The County Government should ensure smooth taking over of the assets and liabilities and record them in their appropriate accounting books.

(a) Cash and Bank Balances

The County Government of Kirinyaga opened and operated four Bank accounts after the transition period. However, no cashbooks were maintained for the revenue account no.1140758497 held at KCB and sub revenue account no. 0420360844601 held at equity bank. As a result, the correct cash book balances couldn't be ascertained.

Cashbooks should be opened, updated and reconciliations prepared for the bank accounts.

(b) Failure to Takeover the Assets of the Defunct Local Authorities.

As at the time of audit, Kirinyaga County Government had not ascertained the total non-current assets it owned which comprised of assets inherited from the defunct councils and new acquisitions. The value of non-current assets after transition could not therefore be ascertained. The following anomalies were noted on new acquisition of assets:

2.1.2 Failure to Maintain Inventory and Fixed Assets Register for Fixed Assets

Permanent ledgers showing receipt and issuance of assorted office machines and furniture worth Kshs.9,163,628 were not maintained. This contravenes section 18.5 of the government financial regulations and procedures.

Proper handing over should be carried out without further delay. Also asset register to record assets taken over from former local authorities and those being acquired by the County Government should be maintained and updated on regular basis.

2.1.3 IPPD Payroll and Establishment

The Kirinyaga County Government incurred expenditure amounting Kshs. 28,934,065 during the month of April 2013 .The staff comprised 370 staff absorbed from the three defunct Councils and 23 County Assembly Members. Expenditure totaling to Kshs.54,771,918 was incurred during the month of May and June 2013.

The County Government had a total of 402 staff comprising 370 staff from the three defunct councils, 23 County Assembly Members and 9 County Executive Members.

The following observations were made on payroll:

(a) All the staffs of the three (3) 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 dispensation. The qualification, experience and optimal number of staff required to run the County Government effectively, efficiently and economically was therefore not determined.

(b) Double Payment PAYE Kshs.733,692

Contrary to Section 8 (2)(h) and Section 8 (2) (a) of the County Government Public Financial Management Transition Act, 2013 proper and accurate payroll records were not maintained in April 2013. Review of the April 2013 IPPD payroll and other relevant documents revealed a double payment of PAYE Kshs.733,692. The PAYE of the salaries of the County Assembly Members was deducted through a payment schedule and cheque 000079 amounting to Kshs.733,692 and paid on 8 of May 2013. The PAYE for the same members for the same period was also deducted through the IPPD system and paid vide cheque number 000074 dated 9 May 2013.

Follow up should be made on the double payment and the amount utilized for future tax obligation. An urgent staff head count is recommended. 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. Further staff rationalization and redeployment of under-utilized and redundant staff is also recommended.

2.1.4 Development Expenditure

i) Non Recording of Expenditure

The County Government received Kshs.61,592,200 on 23 April 2013 to cater for the development of County infrastructure and construction/ refurbishment and furnishing of non-residential office premises and installation of Hansard to the County Assembly. The County had used Kshs.47,234,707 as at the time of the audit.

However, examination of the cashbook revealed that the payment vouchers were not being posted in the ledger as required. The total expenditure as at 30 June 2013 could not, therefore, be ascertained.

(ii) Procurement, Installation and Commissioning of IP Based EPABX, CCTV Surveillance and Structured Cabling – Kshs.11,983,750

The County works officer's letter Ref No. KIRC/GO/VOL. 1/8 of 6 June 2013 indicates that only 5 tenders were invited to tender for the works contrary to section 54 (3) of the Public Procurement and Disposal Regulations, 2006 that stipulates that at least 10 pre-qualified list of suppliers should have been invited to tender. This was despite the fact that the County Government had a list of 113 pre-qualified and licensed electrical contractors and suppliers from the ministry of Public works Headquarters. This increased the risk of overpricing of the works.

All future procurement of goods and services should be done in accordance with the Public Procurement and Disposal, Act, 2005 and Public Procurement and Disposal Regulations 2006 in order for the County to ensure competitiveness and realize value for money.

(iii) Procurement of Hansard System for County Assembly – Kshs.8,000,000

Only 4 Tenderers were invited to tender instead of a minimum of 10 stipulated in section 54 (3) of Public Procurement and Disposal Regulations, 2006. The risk of overpricing is, therefore, high. The list of the pre-qualified suppliers where the bids were invited was not made available for audit review.

2.1.5 Revenue

(a) Decline in Revenue Collected after the Transition Period

The total revenue collected in Kirinyaga County drop from Kshs.39,417,394 in March 2013 to Kshs.22,533,965, Kshs.13,357,130 and Kshs.12,379,558 in April, May and June 2013 respectively. Negative variances of Kshs.5,304,826 or 28% and Kshs.8,812,480 or 41.58% were also recorded during the months of May and June

2013 respectively compared to similar months in year 2012. Examination of records at each of the three defunct Councils revealed that defunct Town Council of Sagana and defunct County Council of Kirinyaga recorded the biggest drops in revenue collection between April and June 2013 Compared to similar months in year 2012.

Revenue collected by defunct Town Council of Sagana-Kagio, reduced by Kshs.2,771,280 and Kshs.4,949,369 in May and June 2013 respectively. Similarly in defunct County Council of Kirinyaga, revenue dropped by Kshs.2,961,680 in May and 3,358,621 in June 2013. The defunct Municipal Council of Kerugoya-Kutus only recorded a decline of Kshs.504,490 in revenue during the month of June 2013.

(b) Revenue Spent at Source Before Banking

The defunct Town Council of Sagana collected revenue totaling to Kshs.7,232,055 during the period April to June 2013. Out of the total collection Kshs.123,310 was spent at source between April and June 2013. The amount had not been refunded as at the time of audit.

(c) Missing Receipt Books Valued at Kshs.10,860,000

Section 6.11.3 of Government Financial Regulations and Procedures requires every officer holding receipt forms to maintain a register of them. Section 6.11.4 of the regulations states that every officer holding receipt forms / books will be held responsible for their safe custody until they have been correctly handed over to another officer or destroyed in accordance with the regulations. Contrary to the quoted provisions several receipt books recorded in the counterfoil receipt books register (CRBR) and not issued out to sub-collectors were not available in the safe. The receipt books had not been included in the handing over notes dated 3 June 2013. The missing receipts included: 108,000 bus park fees receipts of denomination Kshs.20; 220,000 market gate fee receipts of denomination Kshs.30; 10,000 market gate fee receipts of denomination Kshs.10; and 200,000 bus par fee receipts of denomination Kshs.10. The total value of the missing receipts is Kshs.10,860,000. The receipts may have been used to collect revenue which was never surrendered.

(d) Uncontrolled Receipts

Audit verification carried out in the defunct Town Council of Sagana/Kagio revealed that 6,900 private parking fee receipts of denomination Kshs.20 each valued at Kshs.138,000; 2,300 motor cycle parking fees receipts of denomination Kshs.20 for Kshs.46,000; and 7,000, Kshs.10 market gate fee receipts of Kshs.700,000 which had not been used were not recorded in the CRBR contrary to provisions of section 6.11.3 of Government Financial Regulations and Procedures.

Detailed analyses of all revenue collected during the transition period at each of the defunct Local Authorities should be undertaken and variances explained. The County Government should launch investigations to establish the whereabouts of the

receipts. All receipts should be registered in the CRBR promptly. Proper systems should be put in place to ensure that revenue collected is promptly receipted, recorded and banked intact. In addition revenue collection in the entire county should be computerized where integrated automated receipting system is used. The County Government should also put in place strong internal control system to ensure proper accountability at every stage in the revenue collection cycle. Revenue collection control sheets should be maintained by the County Revenue Officer. The county government should employ optimal experienced revenue collectors and internal auditors on permanent terms.

2.1.5 ICT Audit

(a) 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:

(b) 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

(c) 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.

(d) Computers and Accessories

The County has been supplied with twenty (24) personal computers by National Treasury which were to be solely used for IFMIS. It was, however, noted that the county does not have a comprehensive ICT inventory for all ICT assets at the headquarters and all the sub-county offices. It is therefore unlikely that the ICT staff can effectively manage these ICT assets and provide the necessary hardware maintenance.

(e) Data Centre

The County has four (4) data center (server room) at the Kutus Executive offices, Kerugoya Municipal council offices, Kirinyaga County Council and Sagana Town Council. A physical inspection of the data center at the headquarters indicated the following:

- The room is not a restricted area and, therefore, easily accessible to unauthorized persons
- Servers are exposed to dust
- Server is exposed to over-heating and there's no air-conditioning system to control the temperatures
- There are no fire extinguishers within reach

(f) Network Connectivity

There are local area networks (LAN) at the County Treasury's offices, Governor's offices and at the previously known Kerugoya Municipal Council, Sagana Town Council and Kirinyaga County Council offices. There's however no wide area network to connect these offices.

(g) IFMIS and G-Pay

IFMIS was not operational at the Kirinyaga County Government despite receiving the personal computers from the National Treasury.

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

(h) LAIFOMS

LAIFOMS is mostly been used in revenue collection, issuance of single business permits, property management and recording of the accountable documents.

A reconciliation of revenue collected against bankings between 5 March 2013 and 30 June 2013 revealed that Kshs.63,277,218.00 had not been banked as at the time of the audit. It was, however, explained that the officers may have physically banked the cash but failed to post the same to the system.

(i) Integrated Personnel Payroll Database (IPPD)

The County has since consolidated the employees' complement and payroll for all the sub-county offices. The first consolidated payroll to be processed and paid was for the month of April 2013. It was observed that data migration from LAIFOMS to IPPD was accurately carried out.

(j) Logical Access Control

Review of the user access rights in IPPD revealed that payroll manager has access to complement, payroll and is also the systems manager. In the absence of a compensating control, these access rights allow the payroll manager to introduce an employee in the complement, process pay and make any deletions. Such uncontrolled access may be used to process irregular activities.

In view of the foregoing, the County is exposed to the following risks

- The IT operations may not be effectively managed and aligned to support the operations of the county
- Lack of a network diagram may lead to delay in detecting and correcting of any network problem that may arise at the county headquarters
- The absence of IT contingency plans does not ensure continuity of service and operations at the county in the event that unforeseen disaster takes place
- Loss of ICT assets without trace due to lack of a comprehensive ICT inventory
- Inability to centrally manage LAIFOMS may lead to revenue leakages at the sub-counties.

In order to mitigate the risks, the County should develop and approve the key ICT documents that ensure proper management of IT operations. These documents 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, these documents should also be circulated to staff so as to create awareness and ensure compliance. The county may consider having a wide area network (WAN) that connects all the sub-counties with the county headquarters so as to ensure that operations are centrally managed. The management should ensure that all revenue collected and banked should be captured in the LAIFOMS so that timely reconciliation can be done. The ICT department, as strategic resource, needs to be adequately staffed and with defined roles so as to effectively manage the IT operations of the county. The server room should have adequate physical and environmental controls. Some of the controls that need to be enhanced include reinforced physical doors, air conditioning systems, smoke detectors and fire extinguishers.

2.2 Defunct County Council of Kirinyaga

2.2.1 Taking over from Local Authorities

There was no formal handing over of its assets and liabilities as required by the Transitional Authority circular of 18 February 2013.

2.2.2 Cash and Bank Balances

The defunct Council operated a total of 11 bank accounts before, during and after transition.

The following shortcomings were however noted:-

(a) Continued Operation of the Bank Accounts after 4 March 2013

The three defunct County Council of Kirinyaga did not close its bank accounts and transfer the balances thereon to the County Government of Kirinyaga Revenue Account as was required by law. The accounts remained operational up to 30 June 2013. Failure to close bank accounts implied that transactions including expenditure continued to take place in these accounts contrary to the instruction of the Transition Authority.

(b) Incomplete Cashbooks and Unreliable Bank Reconciliation Statements

The defunct Council maintained a cashbook for each of the 10 accounts up to 28 March 2013 except for account number 057000014917 held at family bank. The cashbooks were not posted and balanced daily as required by section 5.9.1.1 and 5.9.1.2 of the Government Financial Regulations and Procedures. The defunct Council maintained a one column cashbook where block monthly figures of total payments were balanced against total receipts at the end of the month. It was not possible to track down how cash was received and banked into the accounts through the cashbook on a daily basis. As a result, the accuracy of the cashbook balances provided could not be ascertained. A board of survey was not conducted on 28/02/2013 and 31 March 2013. In view of these observations, the correct cash and bank balances as at 28 February and 1 March 2013 could not be ascertained and the bank reconciliations could not be relied upon.

(c) Non Maintenance of Cashbooks

The defunct Council did not post transactions in the cashbook after transition period for 11 bank accounts. Certificates of bank balances for two of the bank accounts were not availed for audit. A board of survey was not conducted on 30 June 2013. As a result, the correct cash on hand and bank balance could not be ascertained as at 30 June 2013.

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. The cashbooks should be updated and balanced. The management should ensure cashbooks are prepared in a manner which can provide accurate balances in all the periods the accounts were in operation. Accurate bank reconciliations should also be prepared on monthly basis.

2.2.3 Fixed Assets

(a) Land Ownership and Valuation

According to Assets Register the County Council of Kirinyaga had 195 pieces of land of which 77 were valued at Kshs.393,514,300. This is as per the valuation report by a private valuer dated 16 March 2012. 118 pieces of land had not been valued, 90 had no Land Registration number and 92 pieces had not been surveyed. It was, therefore, not possible to ascertain the total size and value of the parcels of land. In addition, no ownership documents were availed to ascertain that the 195 parcels of land belonged to the County Council.

(b) Unaccounted for Laptops Worth Kshs.210,000

Audit verification of movable assets revealed that three laptops included in the fixed assets register worth Kshs.210,000 were availed for physical verification.

The County Government should identify, take stock and tag all the assets taken over from the seven defunct Local Authorities and those being acquired by the County Government. All the assets should systematically be recorded in the Fixed Assets Register of the County Government. The register should be updated on regular basis. The assets should be valued to ascertain their fair values. Survey and valuation should be carried out to ascertain the total size and value of all land parcels belonging to the County. Further, Investigations should be carried out on the whereabouts of the missing laptops.

2.2.4 Current Debtors

A schedule of debtors provided showed that the defunct County Council debtors as at 28 February 2013 totalled to Kshs.153,081,729.

Included as part of debtors as at 28 February 2013 are contribution in lieu of rates balance of Kshs.91,842,778 and salary advances of Kshs.1,570,581. However, confirmation statements for contribution in lieu of rates and schedules for the salary advance were not made available for verification. The value of debtors as at 31 March 2013 and 30 June 2013 could not be ascertained since no figures and supporting schedules were availed for audit. The debtors value could not therefore, be confirmed.

An appropriate system for recording debtors should be developed to ensure accuracy and completeness of debtors' balances. Also, verification of debtors owed to the County Government should be done without further delay to avoid losses due to non-recoverability.

2.2.5 Creditors' Records, Balances and Payment

The defunct Council had not instituted proper system of recording and accounting for its suppliers' transactions and balances. For example a supplier was paid Kshs.846,000 on 22 February 2013 vide payment voucher number 1302-0173 and cheque no. 802 for alleged supply of receipt books during financial year 2011/2012. However, the supplier was not among list of creditors reflected in the records as at 30 June 2012. In addition, the payment was supported by copies of invoices as opposed to originals. In view of the foregoing, there is the risk of double payment or payment of non-existent creditors.

Suppliers invoices should be promptly recorded in the creditors' ledger detailing particulars of each creditor and the same updated on a regular basis. The creditors' balances should be verified and confirmed independently before effecting any payments.

2.2.6 Nugatory Expenditure on Penalties and Interest Kshs.3,932,603

Contrary to the Provisions of the Ministry of Local Government Circular Ref 2310 dated 20 July 2006 ,the defunct council incurred and paid penalties and interest amounting Kshs.3,932,603 owed to different statutory institutions due to failure to remit the deductions promptly.

The payment voucher described the payments as additional payments to these statutory bodies and but the supporting documents were not availed for audit verification except a statement from LAPRO Fund (Local Authorities Provident Fund) supporting payment voucher 1302 -0294 amounting Kshs.1,136,603. Enquiry on these additional payments revealed these were penalties and interest charges imposed on the local authority by the statutory institutions.

Statutory deductions should be remitted promptly.

2.2.7 Expenditure

(a) Unexplained Payment of Legal Fees - Kshs.15,920,250

It was noted that no funds were budgeted and approved to cater for legal fees during financial year 2012/2013. However, lawyers were paid Kshs.15,920,250 with funds budgeted and approved for other services. Neither an explanation nor a list of cases handled was provided to support these payments.

(b) Overstatement of Outstanding Legal Fees - Kshs.621,860

It was noted outstanding legal fees had been overstated by Kshs.621,860 as at 30 June 2013 by recording an amount payable to lawyers as Kshs.8,252,924 instead of Kshs.7,631,064 invoiced. It appears it was a deliberate move to overpay advocates for services not rendered. It could not be explained why such anomalies could not be detected in creditors record.

(c) Unacknowledged Payments Amounting Kshs.1,679,235

Contrary to the provisions of Section 5.5.13 of Government Financial Regulation and Procedures payments made different statutory bodies' and other institutions payments amounting Kshs. 1,679,235 payments were not acknowledged by a receipt or in the statements from these statutory institutions. The relevant bank statement did not reflect these institutions as the payee but merely reflected the name of the person depositing the cheque.

Suppliers invoices should be promptly recorded in the creditors' ledger detailing particulars of each creditor and the same updated on a regular basis and statements sent to the respective suppliers. The creditors' balances should be verified and confirmed independently before effecting any payments.

(a) Revenue Spent at Source Before Transition Kshs.6,595,925

Examination of banking slips revealed that Kshs.3,334,541 was spent at source during the month of January which represents 45% of the revenue collected. In addition, Kshs.3,261,384 of the revenue collected during the month of February was spent before banking constituting 27.9% of the amount collected during the month. Although payments were processed to fully refund the amount spent at source, the proportion of the revenue spent at source is alarming and is risky.

Spending of revenue at source contravenes section 6.8.5 of Government Financial Regulations and Procedures which prohibits spending of public money between the time of receipt and payment into the bank. There is also the risk that the defunct Council might have only accounted for the revenue it was able to refund. This might have contributed to the adverse variance in revenue collected during the two months as analyzed above.

(b) Decline in Revenue Collected Before and During Transition

It was noted that although revenue collected by the defunct Count Council of Kirinyaga rose by Kshs.4,294,226 from Kshs.7,413,563 in January 2013 to Kshs.11,707,789 in February 2013, there was a general decline in revenue collected by the defunct Council compared to a similar period in year 2012. In year 2012 Kshs.8,925,576 and 12,131,608 was collected in January and February respectively.

The result was a reduction of Kshs.1,512,013 in January and Kshs.423,819 in February.

During the transition (March 2013), Kshs.24,350,225 was collected by the defunct County Council of Kirinyaga compared to Kshs.31,986,996 collected during the same month by the council in year 2012. The effect was a negative variance of Kshs.7,636,771 representing 23.9% decline in revenue collected.

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

2.3 Defunct Municipal Council of Kerugoya/Kutus

2.3.1 Taking over from Local Authorities

There was no formal handing over of its assets and liabilities of the former Municipal Council of Kerugoya/Kutus to the County Government as required by the Circular of 18 February 2013 issued by Ministry of Local Government. Consequently, Kirinyaga County Government could not have a basis of opening balances to be reflected in its books of account.

The Transition Authority should ensure that proper handing over by the former Chief Officers of the County Council is done to enable the County have accurate records of assets and liabilities inherited from the former Council.

2.3.2 Cash And Bank Balances

The defunct Council operated six (6) bank accounts before, during and after transition.

(a) Continued Operation of the Bank Accounts after 4 March 2013

The defunct Municipal Council of Kerugoya-Kutus did not close their bank accounts and transfer the balances thereon to the County Government of Kirinyaga Revenue Account as was required by law. The accounts remained operational up to 30 June 2013. Failure to close bank accounts implied that transactions including expenditure continued to take place in these accounts contrary to the instruction of the Transition Authority.

(b) Failure to maintain Cashbooks Before, During and After Transition.

The defunct Municipal Council of Kerugoya-Kutus operated a total of 6 bank accounts before, during and after transition period. It was noted that the defunct Council maintained an analysis of payments separate from receipts. No cash books were maintained for the accounts and as a result the correct cash and bank balance as at 28 February, 31 March, and 30 June 2013 could not be ascertained. The bank reconciliation statements availed for audit were, therefore, unreliable.

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. The cashbooks should be updated and balanced. The management should ensure cashbooks are prepared in a manner which can provide accurate balances in all the periods the accounts were in operation. Accurate bank reconciliations should also be prepared on monthly basis.

2.3.3 Property, Plant and Equipment

Un Ascertained Value of Land and Buildings

The inventory register relating to land and building availed for audit could not be relied upon to ascertain the value of land and buildings owned by the defunct Municipal Council of Kerugoya/Kutus both before and during transition. Whereas the council owned 13 parcels of land according to the register, 11 of which were developed, their value and ownership status could not be ascertained in absence of valuation reports and title deeds.

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

2.3.4 Current Debtors Balances

The following were the debtors balances of the defunct Municipal Council of Kerugoya/Kutus:

Debtors	As at 28/2/2013	As at 30/3/2013	As at 30/6/2013
	Kshs.	Kshs.	Kshs.
House & Stall Rent	311,766.00	Not provided	373,464.00
Property Rates	<u>38,841,427.00</u>	Not provided	<u>39,575,005.00</u>

Total Kshs. 39,153,193.00

39,948,472.00

However, the balances as at 30 March 2013 were not provided. In addition the value of debtors as at 31 March 2013 and 30 June 2013 could not be ascertained since no figures and supporting schedules were availed for audit.

An appropriate system for recording debtors should be developed to ensure accuracy and completeness of debtors' balances. Also, verification of debtors owed to the County Government should be done without further delay to avoid losses due to non-recoverability.

2.3.5 Creditors

Un paid Tax on Domestic Travel and Airtime Allowance – Kshs.897, 535

Review of creditors recording system revealed that the defunct Municipal Council of Kerugoya /Kutus had outstanding penalties and interest amounting Kshs.897, 535 as at 22 August 2013. This amount was arrived at after a 55% waiver of revised penalties and interest amounting Kshs.1, 994,522. The penalties and interest were imposed after assessment carried out by Kenya Revenue on untaxed airtime and subsistence allowances amounting Kshs.1,970,544 which had accumulated from January 2010 to December 2011. As at the time of assessment penalties and interest amounting Kshs.1,727,155.85 had accrued. The defunct council, however, paid Kshs.1,970,544 on 28 February 2013 vide payment voucher 1302-0244 amounting Kshs.985,278 and payment voucher 1302-0208 amounting Kshs.985,277. This clearly shows that there are no control over the County's liabilities and accounting for the suppliers balances.

Suppliers invoices should be promptly recorded in the creditors' ledger detailing particulars of each creditor and the same updated on a regular basis. The creditors' balances should be verified and confirmed independently before effecting any payments. In addition outstanding interest and penalties should be paid promptly failure upon which Kenya Revenue Authority could revoke the waiver given of Ksh.1, 096,987.

2.3.6 IPPD Payroll and Establishment

a) Establishment

The defunct Municipal of Kerugoya/Kutus incurred Kshs.40, 404,667 from July 2012 to March 2013 on payment of salaries. The defunct council had 100 employees as at March 2013. All the employees of the Municipal Council were absorbed into the Kirinyaga County Government payroll without head count and staff evaluation and without being 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 dispensation.

b) Underpayment of Pay As You Earn (PAYE) Tax-Kshs.518,000

Contrary to Section of 5 (2) (a) of Income Tax Act CAP 470, Rev.2012 the defunct Municipal of Kerugoya-Kutus underpaid PAYE by Kshs.518,000 while paying Salary arrears amounting Kshs.9,062,256 accruing from the implementation of the new Collective Agreement (CBA) awarded through Industrial Court Order dated February 2013 . The salary arrears were taxed separately instead of being added together with other benefits from employment earned that month. Further, review of March 2013 payroll reveals only five employees out of the 100 employees had less than Kshs.38,892 gross salary in March 2013 with four earning Kshs.38,280 and one earning Kshs.34,440. All the other employees were earning over Kshs.38, 892 per month and, therefore, the applicable rate of tax was 30%.

The County Government management should undertake an urgent staff head count. 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. Further, all taxable benefits/allowances from employment should be added together when calculating the Pay As You Earn.

2.3.7 Decline in Revenue Collected During Transition Period

During the month of March 2013, the defunct Municipal Council of Kerugoya/Kutus recorded a decline in revenue by Kshs.2,787,289 compared to the same month in year 2012 which translates to a negative variance of 19.3%.

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

2.3 Defunct Town Council of Sagana/Kagio

2.4.1 Taking over from Local Authorities

There was no formal handing over of assets and liabilities of the former Town Council of Sagana/Kagio assets and liabilities to the County Government as required by the Circular of 18 February 2013 issued by Ministry of Local Government. Consequently, Kirinyaga County Government could not have a basis of opening balances to be reflected in its books of account.

The Transition Authority should ensure that proper handing over by the former chief officers of the County Council is done to enable the County have accurate records of assets and liabilities inherited from the former Council.

2.4.2 Cash and Bank Balances

a) Continued Operation of the Bank Accounts after 28 February 2013

The defunct Town Council of Sagana-Kagio did not close their bank accounts and transfer the balances thereon to the County Government of Kirinyaga Revenue Account as was required by law resulting to unauthorized expenditure of Kshs.3,656,778 during transition. The accounts remained operational up to 30 June 2013. Failure to close bank accounts implied that transactions including expenditure continued to take place in these accounts contrary to the instruction of the Transition Authority.

b) Incomplete Cashbooks and Unreliable Bank Reconciliation Statements Before, During and After Transition

The defunct Town Council of Sagana-Kagio operated a total of 6 bank accounts before, during and after the transition period. It was noted that although cashbooks were maintained for each bank account, they had not been balanced for a long time. The bank reconciliation statements prepared could not therefore, be relied upon. A board of survey was also not conducted on 28 February, 31 March and 30 June 2013. Consequently, the correct cash and bank balance could not be ascertained.

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. The cashbooks should be updated and balanced. The management should ensure cashbooks are prepared in a manner which can provide accurate balances in all the periods the accounts were in operation. Accurate bank reconciliations should also be prepared on monthly basis.

2.4.3 Unvalued Land, Motor Vehicles and Equipment

No values were provided for open market at Kagio with land registration no. Mwea / Kagio/133 measuring 2.83 acres and movable assets which included assorted furniture, assorted electronic gadgets, two motor vehicles, motor bike, donkey carts, tools and equipment and biological assets. Consequently, the value of assets held by the defunct Council before the transition could not be ascertained.

The County Government should identify, take stock, tag and value all the assets taken over from the defunct Town Council of Sagana/Kagio and those being acquired by the County Government. All the assets should systematically be recorded in the Fixed Assets Register of the County Government. The register should be updated on regular basis. The assets should be valued to ascertain their fair values. Survey and valuation should be carried out to ascertain the total size and value of all land parcels belonging to the County.

2.4.4 Debtors Balances

As at 28 February 2013 Plot rents were reflected in the books of the defunct council as Kshs.7,658,254, Land rates amounted to Kshs.166,594,257 and contribution in lieu of rates Kshs.11,682,357.

During the transition, debtors' schedule was not availed. Plot rents were reflected in the books of the defunct council as Kshs.6,532,274 as at 30 June, Land rates amounted to Kshs.166,447,557 and contribution in lieu of rates Kshs.11,682,357. However, schedules and confirmation statements were not availed to support land rates, plot rents and contribution in lieu of rates both before and after transition.

An appropriate system for recording debtors should be developed to ensure accuracy and completeness of debtors' balances. Also, verification of debtors owed to the County Government should be done without further delay to avoid losses due to non-recoverability.

2.4.5 Creditors

The creditors position was as follows:-

	Before Transition As at 28/2/2013 Kshs.	During Transition As at 31/3/2013 Kshs.	After Transition As at 30/6/2013 Kshs.
Commissioner of Lands	1,935,506.00	1,935,506.00	1,935,506.00
Laptrust Actual Deficit	3,788,332.00	3,788,332.00	3,788,332.00
KRA-PAYE Deduction	1,479,680.00	Not provided	234,744.00

KENAO	1,350,000.00	1,350,000.00	1,350,000.00
Salary Arrears	5,200,000.00	5,200,000.00	5,200,000.00
Legal Fees	<u>1,350,550.00</u>	<u>1,350,550.00</u>	<u>1,350,550.00</u>
	<u>15,104,068.00</u>		<u>13,859,132.00</u>

No explanation was given for delay in paying the creditors.

Suppliers invoices should be promptly recorded in the creditors' ledger detailing particulars of each creditor and the same updated on a regular basis. The creditors' balances should be verified and confirmed independently before effecting any payments.

2.4.6 IPPD Payroll and Establishment

(a) Under-Paid PAYE Kshs.334,215

Contrary to Section of 5 (2) (a) of Income Tax Act Cap 470, Rev.2012, the defunct Town Council of Sagana/Kagio underpaid PAYE by Kshs.234,744 on payment of leave allowance. It was also noted that Kshs.83,771 was deducted while processing payment voucher 1302-0075 but was not dispatched to Commissioner of Income Tax making the total underpaid Kshs.334,215. Failure to pay correct statutory deductions attracts nugatory penalties and interests.

(b) Penalties and Interest on Late Payment of PAYE-Kshs.234,744

Contrary to Section 72(D) and Section 94(1) of the Income Tax Act Cap 470 Rev.2012 the defunct Town Council of Sagana incurred interest and penalties amounting Kshs.234, 744 on late payment of PAYE deducted from November 2012 to February 2013 according to demand letter from the Kenya Revenue Authority dated 22 March 2013. Only the principal amount was paid on 10 April 2013.

(c) Hire of Casual Labourers

Contrary to Section 5.5.13 of Government Financial Regulation and Procedures the defunct Council incurred un explained significant increase in casual wages in January and February 2013. Out of the total casual wages amounting Kshs.1, 479,897, Kshs.1, 029,897 relate to the months of January and February 2013 while Kshs.450, 000 relate to October, November and December 2102.This implies from October to December 2012 the average wages expenditure Kshs.150, 000 per month, while the average wage expenditure in January and February 2013 rose to Kshs.514, 984.50. No explanation was provided for the sharp increase in casual wages expenditure. It was also noted that the muster rolls were not complete as at the time of audit. The basis of preparing the payment schedules to support the casual wages made was therefore not clear. It was also noted that authority to hire casuals was not obtained.

Statutory deductions should be remitted promptly and in full. In addition the increase in casual wages should be justified through staff rationalization.

2.4.7 Revenue

(a) Decline in Revenue Collected During Transition

The defunct Town Council of Sagana/Kagio the month of March 2013 saw its revenue drop by Kshs.3,621,395 compared to the same month in year 2012 representing a reduction by 51.7% .

(b) Spending of Revenue at Source

Out of Kshs.2,554,696 collected in February 2013 , Kshs.33,450 was spent before banking and had not been refunded as at the time of audit.

The decline in revenue should be investigated. Detailed analyses of all revenue collected during the transition period at Town Council of Sagana/Kagio should be undertaken and variances explained. Proper systems should be put in place to ensure that revenue collected is promptly receipted, recorded and banked intact. In addition revenue collection in the entire county should be computerized where integrated automated receipting system is used. The Government should also put in place strong internal control system to ensure proper accountability at every stage in the revenue collection cycle. Revenue collection control sheets should be maintained by the County Revenue Officer.

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

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

A handwritten signature in black ink, appearing to read 'E. O. Ouko', with a small flourish at the end.

Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

16 May 2014