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KENYA NATIONAL AUDIT OFFICE

REPORT

OF

THE AUDITOR-GENERAL

ON

FINANCIAL OPERATIONS

OF

BOMET COUNTY



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SPECIAL AUDIT REPORT ON THE OPERATIONS OF THE COUNTY GOVERNMENT OF BOMET AND THE DEFUNCT LOCAL AUTHORITIES FOR THE PERIOD JANUARY TO JUNE 2013

EXECUTIVE SUMMARY

1. General

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 Further, the County Government Act, 2012 Section 134 (1) repealed the Local Government Act, Cap 265, and thus effectively dissolving all the 175 Local Authorities and creating 47 County Governments.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 Bomet comprising the County Government Executive, the County Assembly and the three (3) defunct Local Authorities which are County Council of Bomet, Municipal Council of Bomet and Town Council of Sotik.

2. The Audit

2.1 Audit Objectives

The audit covered the County Government of Bomet and the 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:

- ✓ 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

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

SUMMARY OF THE MAIN FINDINGS

2.2 Bomet County Government Executive

2.3.1 Taking over of former Local Authorities

Although all the three former Local Authorities of Bomet Municipality, Bomet County Council and Sotik Town Council prepared a detailed listing of the assets, liabilities and staff that then existed, no official hand over/take over took place as provided for. The County Government appeared to embrace possession and use of the assets held by the former Councils, but was reluctant to accept the liabilities. It could not be determined conclusively the assets and liabilities taken over by the County Government of Bomet in the absence of an official handing over.

The Bomet County Government had not therefore officially taken over the assets and liabilities of the former County Councils of Bomet and Sotik County Councils and that of Bomet Municipality as at the time of audit conclusion on 23 September, 2013, contrary to instructions issued by the Ministry of Local Government vide Circular No. MLG/1333/TY/52 of 18 February, 2013. Arrangements should be made by Transition Authority to have assets and liabilities of the former County Councils handed over to Bomet County Government. The former Councils' assets and liabilities closing balances will assist the County Government in determining opening balances for the books of account.

2.3.2 Cash and Bank balances

The County Government Executive opened three(3) bank accounts into which a total of Kshs.1,663,876 was transferred on 27 June, 2013 when the bank accounts of the former Councils were closed. However, the bank accounts 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. In addition there was no Board of Survey constituted to verify cash and bank balances at the closure and transfer of those balances to the County Government.

Failure to close bank accounts implied that revenue collections continued to be banked in these accounts, and expenditure incurred, contrary to the law. The bank accounts should be closed and balances transferred to County Revenue Account. Expenditure

incurred during the period should also be investigated and confirmed as a proper charge to public funds. Cashbook records should be updated and monthly bank reconciliations done to support the accuracy of the balances

Further, the County Government maintained one cashbook which was used to record transactions for both the Executive and the County Assembly, although these are distinct accounting units within Bomet County. Separate cashbooks should be opened and maintained for each unit to enhance proper accountability of funds allocated to them.

2.3.3 Debtors

According to unsigned handing over notes held by the County Government office, debts totalling Kshs.318,552,468 for takeover from the constituent local authorities as follows::

(i) The County Council of Bomet	197,727,700
(ii) Town Council of Sotik	57,146,982
(ii) The Bomet Municipal	<u>63,677,786</u>
Total	<u>318,552,468</u>

The County Executive did not officially take over the debtors and did not prepare any records to follow up. There is a risk that the debtors might not be traced if there is no official takeover to preserve evidence of the accruals. Revenue may also be lost.

We recommend that appropriate systems for recording debtors by the County Government should be developed to ensure accuracy of records. Also, debt collection policy should be put in place to facilitate collection of County debts as and when they fall due. We further recommend proper analysis of debts owed to the constituent defunct Local Authorities. Debtors' records should be reconstituted starting with the audited balances as at 30 June 2012 and recorded in the debtors ledger. Monthly debtors reconciliation should be done.

2.3.4 Creditors

The three Former local authorities provided handing over notes of outstanding creditors totaling Kshs.75,269,174. The County Executive failed to officially take over the creditors arguing that it was the responsibility of Transitional Authority to settle the financial obligations of the former Councils. The matter remains in abeyance.

The creditors 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 confirmed independently before effecting any payments.

2.3.5 Non Current Assets

The status of the assets held by former Councils is as follows:



(a) Motor Vehicles

The County Executive Government had a total of thirty five (35) motor vehicles and related machinery out of which two (2) were involved in road accidents during the transition period. The County Executive did not provide information regarding the cause of the accidents and who would be responsible for the repairs between the government, the insurance company and the drivers. One of the vehicles was also found to be deteriorating in the garage. Another motor vehicle which was inherited from the former County Council of Bomet was not physically availed for audit inspection and was not included in the list of motor vehicles handed over to the County Government.

In addition, the three Councils had not valued their assets. Further, the County Government did not maintain an assets register to record assets taken over from the defunct County Councils and those purchased. An assets register to record assets taken over from the defunct Local Authorities and those being acquired by the County Government should be maintained and updated on a regular basis. The assets should be valued to ascertain the fair values.

(b) Furniture, Fittings and Computers

The County Executive failed to maintain inventory of the Furniture, Fittings and Computers. It was therefore not possible to establish the nature and quantities of the assets either inherited or acquired during the Transition Period.

The County Government should identify, take stock and tag all the assets taken over from the three 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 a regular basis. The assets should be valued to ascertain the fair values.

2.3.6 Revenue

The County Executive Government of Bomet received Kshs.185,696,194 from the Transitional Authority between April and June 2013. The County Government Revenue Account where all revenue collected after 28 February 2013 was supposed to be banked intact was not opened until 27 June 2013. Thus the defunct County Councils collected and banked revenue collections in their unclosed respective bank accounts. Further, there was no evidence that the revenue control sheets were checked by any senior officer to confirm accuracy of revenue collected.

Proper systems should be put in place to ensure that revenue collected is promptly received, recorded and banked intact. All bank accounts of the defunct County Councils not yet closed should be reconciled, closed and balances transferred to the County Revenue Account.



2.3.7 Procurement

Review of County Government procurement records revealed weaknesses in the recording of goods and services procured. Consequently there is the risk of loss and pilferage of County Government assets. For example, there were items that were purchased worth Kshs.1,893,000.00 but were not taken on charge raising questions of the location of such assets and if they were diverted for other use.

We recommend that proper stores ledger be opened and all procurements be correctly and promptly recorded therein upon receipt of any purchases of goods, stocks and consumables. The goods should then be issued via Goods Issue Notes, duly authorized by designated senior staff that are independent of the store.

2.3.8 Audit of Human Resources and IPPD Payroll and establishment

All the staff of the defunct local authorities were transferred to the County Government but have not been subjected to the County Public Service Board for confirmation and redeployment as employees of the County Government. The audit further revealed that there was no job evaluation done to determine the personnel/human resource requirements in the new County Government dispensation. The qualification, experience and optimal number of staff required to run the County Government effectively, efficiently and economically was therefore not determined.

We recommend 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.

2.3.9 ICT, IFMIS and G-Pay Systems

IFMIS and G-PAYE were installed at the County Treasury by the National Treasury but were not fully operational due to connectivity problem.

Summary of ICT Audit Findings

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

a) Hardware

The County received nineteen (19) computers and (19) UPS from The National Treasury (IFMIS Department) which were solely to be used for IFMIS and fifteen (15)

modems. We were also informed that out of these computers, 2CPUs, 3 Monitors and 2 UPSs were faulty.

a) Software

Integrated Financial Management Information System (IFMIS)

Plan to Budget module was being utilized while Procure-to-Pay module was not in use and all payment processes were carried out manually. The main reason for not using IFMIS for payment processing according to the users was the issue of connectivity.

b) G-Pay

The County had received one (1) computer from CBK for G-Pay .The G-pay system is not in use.

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

LAIFOMS was installed in 2 Councils; the Bomet Municipal Council and the former Bomet County Council while all the other Sub-Counties' revenue collection process was manual. Analysis of data revealed the following:

- In Bomet Municipal Council receipts amounting to Kshs.2,556,731.00 between the period 1 July, 2012 and 23 October, 2013 had not been captured into the system This appeared as an overbanking.
- There were also payments of Kshs.6,532,982 was made between 6 March 2013 and 17 July, 2013 of out of which Kshs.4,607,457(70%) were cashiers drawings.
- In Bomet County Council, there was an under-banking of Kshs.5,712,735.00 between 2 July, 2012 and 22 October 2013.
- There were also payments amounting to Kshs.34,473,848.00 made through the system between 7 March and 24 May, 2013. Kshs.22,558,017 (65%) of this amount was cashier's withdrawals.

d) Integrated Payroll and Personnel Database (IPPD)

The County had not finished the implementation of IPPD and payroll processing was being carried out manually. The ICT staff were also not involved in the implementation of the system and they were not able to offer required support.

e) IT Control Environment and ICT Governance

- The County had four ICT staff to provide support to the applications in place.
- The County had not developed the key ICT documents which include; ICT strategies, ICT policy and procedures and BCP/DRP. The County had no ICT steering committee in place.

Recommendations and Conclusion on ICT Audit

- The County should ensure that all revenue collection and payment processes are automated.
- Excessive cash withdrawal restricted.
- The County should ensure that all its Sub-County offices are interconnected to the head office to ensure efficient monitoring of each Sub-County processes.
- The County management should take control of the management of LAIFOMS previously installed in the Local Authorities so as to ensure that revenue collection is accounted for and banked intact.
- Adequate controls should be put in place to ensure integrity and completeness of data in the LAIFOMS system.
- The management should intervene in the implementation of IPPD system to ensure that human resource data and payroll processing is fully automated.

2.4 Bomet County Assembly

Lack of separation of powers/authority

It was observed that the County Assembly depended on the County Executive for all its expenditure needs. The County Executive facilitated the Assembly through regular issuance of imprests which were surrendered and accounted for in the books of the County Executive. The lack of separation of powers and authority could compromise the oversight role envisaged in the creation of the two institutions.

Separate votes, bank accounts and cash books should be opened and maintained for each of the two distinct organs of Bomet County Government.

2.5 The Defunct County Council of Bomet

2.5.1 Cash and Cash Equivalent

The bank accounts of former County Council of Bomet with a balance of Kshs.24,052,208.80 remained in operation after 28 February, 2013 the deadline provided by the Transition Authority for closure of the accounts. At the time of closure of the accounts on 27 June, 2013, the balance was Kshs.1,020,986.80 which was transferred to County Government bank account. Therefore, the difference of

Kshs.23,046,608.15 represents amount spent by the Council without approval from the Transitional Authority. According to the Ministry of Local Government vide Circular No. MLG/1333/TY/52 of 18 February, 2013 the banks accounts were to be frozen on 28 February 2013. However the accounts continued operating until 27 June 2013 without change of bank signatories. This was contrary to County Governments Public Finance Management Transition Act, 2013.

The County Government should ensure that instructions and directives issued from time to time are adhered to.

2.5.2 Current Debtors Balances

The debtors' balances of Kshs.197,727,700 as at 30 June 2013 were not confirmed for lack of supporting documents. The debtor's ledger and plot rent registers, though in existence, were however not updated.

We recommend proper analysis of debts owed to the constituent defunct Local Authorities. Debtors' records should be reconstituted starting with the audited balances as at 30 June 2012 and transferred to debtors' ledger. Monthly debtors' reconciliation should be done and recovered.

2.5.3 Current Suppliers/Creditors Balances

Outstanding creditors' balances amounting to Kshs.10,062,383 did not have supporting invoices and account statements and circularization of creditors was not done. The accuracy of the creditors balance was therefore doubtful.

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

2.5.4 Revenue

The Council collected a total of Kshs.78,328,408 for the period January to June 2012 while only Kshs.20,973,783 was collected for the same period in the year 2013 resulting in a net decline of Kshs.57,354,625 for which no proper explanation has been given. The huge decline of revenue during the transition period raises suspicion of irregularities in revenue collection and surrender.

Detailed analysis of revenue collected during the transition period at each of the defunct Local Authority 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.

2.5.5 Non-Current Assets

(i) **Land** - The detailed list of the assets of the County Council of Bomet excluded parcels of land valued at Kshs.65,007,000.

(ii) **Motor Vehicles** - The former Council disposed two (2) motor vehicles and other machinery whose disposal process had been earlier approved both by Treasury and the Ministry of Local Authorities. However the Fixed Assets Register was not updated.

All assets of the County Government should be identified, valued and recorded in the County Government Fixed Assets Register.

2.5.6 Audit of Human Resources and IPPD Payroll and Establishment

The County council of Bomet had fifty five (55) permanent employees and forty two (42) temporary staff who were all transferred to the County Government. Although the personal details of the employees were verified as correctly stated, there was no staff and job evaluation done to determine the suitability of each member of staff under the new County Government dispensation.

Defunct Municipal Council of Bomet

2.6.1 Cash and Cash Equivalent

The former Municipality operated seven (7) bank accounts the list of which was submitted and confirmed. The accounts remained operational beyond the 28 February 2013 deadline provided by the Transition Authority. The account balances as at 28 February 2013 were Kshs.1,379,306.61 and Kshs.26,188.95 as at 27 June 2013 when they were closed and the balance transferred to the County Government accounts. This was contrary to County Governments Public Finance Management Transition Act, 2013.

The County Government should ensure that instructions and directives issued from time to time are adhered to.

2.6.2 Current Debtors Balances

According to unsigned handing over notes prepared by the Council, outstanding debtors as at 30 June 2013 was Kshs.63,677,786. However, the relevant support documents were not availed for audit confirmation. Debtors' circularization was also not done and therefore the actual outstanding balances could not be ascertained.

Appropriate systems for recording debtors by the County Government should be developed to ensure accuracy and completeness of records. Also, debt collection policy should be put in place to facilitate collection of County debts as and when they fall due.

2.6.3 Suppliers/Creditors Records

The handover notes of creditors' balances totaling Kshs.11,212,050 as at 27 June 2013 were provided to the County Government. Although the Council maintained a creditor's ledger, there were no creditors' invoices and statements to support the individual supplier's balances and so the accuracy of the total creditors balance of Kshs.11,212,050 was not confirmed.

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

2.6.4 Revenue

Revenue collections for the months of January to June 2012 of Kshs.14,170,390 compared to the same period in 2013 of only Kshs.8,568,209 reflected a marked drop of Kshs.5,602,390. No satisfactory explanation was given for the sudden drop and the possibility of irregularities cannot be ruled out.

Detailed analysis of revenue collected during the transition period at each of the defunct Local Authority 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.

2.6.5 Non-Current Assets

Eleven (11) office buildings transferred to the County Government had not been valued and therefore no values were assigned. Office furniture and equipment valued at Kshs.1,069,000 were also transferred without inventory records to support the completeness and accuracy of the listing.

The County Government should identify, take stock and tag all the assets taken over from the defunct Municipal Council of Bomet and those being acquired by the County Government. All the assets should be valued and systematically recorded in the Fixed Assets Register of the County Government.

2.6.6 Audit of Human Resources and IPPD Payroll and establishment

The Municipal Council had forty six (46) permanent employees and eight five (85) temporary staff who were all transferred to County Government. Although the personal details of the employees were verified as correctly stated, the suitability of staff and the job evaluation of the work done by each staff member was not done. There is the risk of bloated payroll and certain jobs being done by either unqualified or overqualified staff as well as possibility of job duplications.

DETAILED AUDIT REPORT ON THE OPERATIONS OF THE COUNTY GOVERNMENT OF BOMET AND DEFUNCT LOCAL AUTHORITIES FOR THE PERIOD 1 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 transition 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

2.1 BOMET COUNTY GOVERNMENT EXECUTIVE

2.1.1 Taking over of former Local Authorities

The Transitional Authority required all Local Authorities to prepare a detailed list of the assets, liabilities and staff by the close of 28 February 2013. These were to be handed over to the County Government after the conclusion of the general election of 4 March 2013. Although all the three former Local Authorities of Bomet Municipality, Bomet County Council and Sotik Town Council prepared a detailed listing of the assets,

liabilities and staff that then existed, no official hand over/take over took place. The County Government seems to embrace possession and use of the assets held by the former Councils, but it is reluctant to accept liabilities in equal measure. In the circumstances, it was not possible to establish the completeness of the assets and liabilities taken over by the County Government of Bomet.

2.1.2 Cash and Bank balances

The Transition Authority Circular Ref .TA/7/5/(20) dated 12 February 2013 required all former Local Authorities to close the bank accounts by 28 February 2013. Further, the County Government was required to open and maintain collections accounts at Sub-Counties in Commercial banks where revenue receipts were to be banked intact. On 10 April 2013, the County Government Executive opened the following bank accounts:

- Operations Standing Account No.01141356751900 – Co-operative bank
- Revenue Collection Account No. 01141356751800 – Co-operative bank
- current account No.1143078756 – Kenya Commercial Bank

The bank accounts of the former Councils were subsequently closed on 27 June 2013, and the balances transferred to the County Government Accounts as follows:

- (i) The County Council of Bomet – 1, 020,987 transferred to a/c no. 1143078756
- (ii) Town Council of Sotik – 616,701.41 transferred to a/c no.01141356751800
- (iii) The Bomet Municipal – 26,188.95 transferred to a/c no.1143078756

The County Government of Bomet did not constitute a Board of Survey to verify cash at hand at the time of takeover of the cash and bank balances on 27 June 2013 nor did the former Councils do the same. Therefore, the correctness of the balances reflected could not be confirmed.

2.1.3 Debtors

According to the unsigned handing over notes held by the County Government office, the following were the balances outstanding for takeover by the County Government from the former Councils:

(iii) The County Council of Bomet	197,727,700
(iv) Town Council of Sotik	57,146,982
(v) The Bomet Municipal	<u>63,677,786</u>
Total	<u>318,552,468</u>

The County Executive did not officially take over the debtors and did not prepare any records for follow up. There is a risk that the debtors might not be traced if there is no official takeover to preserve evidence of the accruals.

The Transitional Authority should take immediate action to address this matter so that the County Government can officially take over the correct assets, liabilities and other functions as provided under the Act.

2.1.4 Creditors

The three Former local authorities provided handing over notes of outstanding creditors of Kshs.75,269,174.00 as follows:

(i) The County Council of Bomet	10,062,384
(ii) Town Council of Sotik	53,994,740
(iii) The Bomet Municipal	<u>11,212,050</u>
Total	<u>75,269,174</u>

The County Executive did not officially take over the creditors and did not prepare any records arguing that it is for the Transitional Authority to settle the financial obligations of the former Councils. The Transitional Authority should move fast to address this matter so that the County Government can officially take over the correct assets, liabilities and other functions as provided under the Act.

2.1.5 Non Current Assets

The status of the assets held by former Councils is as follows:

(c) Motor Vehicles

- (i) The County Executive Government had a total of thirty five (35) motor vehicles and related machinery of which nine (9) were newly purchased Ford Everest vehicles while the rest were inherited from the defunct Local Authorities.
- (ii) Motor vehicle records indicate that two (2) motor vehicles were involved in road accidents during the transition period. Motor vehicle registration No.GK A 723 D Toyota Fortuner was involved in a road accident hardly two weeks after purchase. Motor vehicle registration No. KAW 215 Z was physically lying in garage for want of repairs. The County Executive did not provide the following details;
 - Cause of accident and whether there was any negligence for the accident,
 - Whether the motor vehicle was on official duties at the time of the accident,
 - If the insurer compensated for the damages/repairs, and
 - Reasons for letting the vehicle to continue deteriorating in the garage.
- (iii) It was also noted that motor vehicle Reg.No KYG 808 (log book No.455336) was not physically available for audit inspection. The vehicle which was inherited from the defunct County Council of Bomet was not included in the list of motor vehicles handed over to the County Executive of Bomet.

The County Executive should ensure that the transport department is managed efficiently and professionally so that there is effective and efficient delivery of services. The missing vehicle should be traced and those involved in road accidents repaired and secured upon investigations on the cause of accident. Anybody found culpable should be made to account.

(d) Furniture, Fittings and Computers

The County Executive did not maintain inventory of the Furniture, Fittings and Computers at its disposal. It was therefore not possible to establish the quantities of the assets either inherited or acquired during the Transition Period. The Transition Authority should ensure that Furniture and Fittings and Computers inherited from defunct Local Authorities and those purchased during the Transition Period are promptly recorded and proper inventory maintained.

2.1.6 Revenue

The County Executive Government of Bomet received the following funds from the Transitional Authority:

On the 26 April 2013

70,916,580

On the 28 June 2013

53,187,414

On 17 June 2013

1.0 61,592,200

185,696,194

As at 30 June 2013 the bank balance for the Cooperative bank County operations account No.01141356751900 was Kshs.128,707,916.90. The Main Cash Book was not maintained and no revenue reconciliation was done to confirm the cash and cash equivalents as at that date. It was not therefore possible to confirm the cash and bank balances as at the closure of the financial year on 30 June 2013.

2.1.7 Procurement

A number of irregularities were noted in respect to the manner the County Government procured some of its goods and services:

- (i) The County Executive purchased two-way workstations and filing cabinets at a cost of Kshs.1,300,000. Although the right procurement procedures were followed in acquiring the items, the assets were not taken on charge in the assets register.
- (ii) Further, the County Executive did not maintain an inventory of the furniture and fittings. Also not recorded were four (4) HP laptops and one (1) photocopier costing Kshs.593,000. The receipt and issue records of the laptops were not made available for audit and the whereabouts of the computers was not established.

The County Government should ensure that all procurement is based on the provisions of the Procurement and Disposal Act of 2005 and Regulations, 2006. Inadequate and incomplete records may lead to loss of public assets by diverting the same to personal use. All assets should be properly recorded once procured.

2.1.8 Audit of Human Resources and IPPD Payroll and establishment

All the staff of the defunct local authorities were transferred to the County Government. However, the employees have not been subjected to the County Public Service Board for confirmation and deployment as employees of the County Government.

2.1.9 IFMIS and G-Pay Systems

IFMIS and G-PAYE was installed at the County Treasury by the National Treasury but is not working because there are no trained officers to operate the systems. Networking and Connectivity is fairly working at the revenue and budget offices. The County Assembly, Treasury and the Governor's office are not linked. Receipting and billing at revenue office is on LAIFORMS and not IFMIS. The Sub Counties are purely manual and submit manual returns. Whereas the budget module has been uploaded into IFMIS, the module is configured to run for only three years by the National Treasury and will have to be reactivated.

The County Government should set aside resources to enable full automation of its functions in order to seal loopholes and improve efficiency of service delivery.

2.1.10 ICT Audit

Applications in Place

The County has the following applications:

Integrated Financial Management Information System (IFMIS)

This application's modules include Procure to Pay, Revenue to Cash, Records to Report and Communication to Change. IFMIS is Web enabled and centrally managed by the National Treasury.

G-PAY

The G-PAY application is used to make payments after they have been captured and processed in IFMIS, the application is installed and managed by Central bank of Kenya.

Integrated Payroll and Personnel Database (IPPD)

It is the human resource and payroll management application which is used to capture and process employees' earnings and deductions as well as bank remittances details.

Local Authorities Integrated Financial Operation Management System (LAIFOMS)

This is a financial management system whose modules include receipts processing, accountable documents management and the property rates management. The expenditure and personnel management modules had since been deactivated with effect from 30 June 2013. This application is a stand-alone and had previously been installed in the Local Authorities within the County.

ICT Audit Findings

a) Hardware

The County received nineteen (19) computers and (19) UPS from The National Treasury (IFMIS Department) which was solely to be used for IFMIS, one (1) computers from CBK for G-Pay and fifteen (15) modems. We were also informed that out of these computers, 2 CPUs, 3 Monitors and 2 UPSs were faulty.

Servers

The County had two servers in place for LAIFOMS.

Network Connectivity

The County had LAN in the revenue offices but no wide area network to interlink all Sub County offices. This has the following risks:

- Inadequate network connectivity may hinder the monitoring of the activities at the Sub-Countries.
- Lack of an established network may hamper the automation of the County's processes.

Recommendations

- All Sub-County Offices should have adequate infrastructure and LAN to facilitate automation of the County operations.
- 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.

Software

The applications in place at the County were as follows:

b) Integrated Financial Management Information System (IFMIS)

IFMIS installation and setup had been done at the Bomet Governors offices. Plan to Budget module was being utilized while Procure to Pay module was not in use and all payment processes were carried out manually. The main reason for not using IFMIS for payment processing according to the users was the issue of connectivity.

The service providers were on site before our visit and they had promised to fix the problem in one month time.

Risks

- i. Inability to monitor the internally generated revenue and its expenditure may lead to the mismanagement of County funds.
- ii. Usage of manual procedures in the accounting of revenue lacks the appropriate controls to prevent and detect fraud in a timely manner.

Recommendations

- i. The change management policy at the IFMIS should be reviewed to incorporate the ICT officers in the IFMIS implementation.
- ii. The County should ensure that IFMIS is fully utilized for its financial operations and all modules are in use.
- iii. The IFMIS Directorate should fast track the implementation of C-IFMIS which will be used to integrate the Revenue Module of LAIFOMS and IFMIS. This will ensure that all revenue collected by the County is reflected in IFMIS thereby promoting accountability of these funds. The IFMIS system should be integrated with G-PAY system
- iv. The County should ensure that all its financial operations are automated.
- v. There is need to liaise with IFMIS Department to install a communication enhancer to boost the signal transmission so as to ensure continuous delivery of service.

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

LAIFOMS was installed in 2 Councils; the Bomet Municipal Council and the former Bomet County Council while all the other Sub-Counties' revenue collection process was manual. Analysis of data revealed the following:

Bomet Municipal Council

- Receipts amounting to Kshs. 2,454,113.00 between the period 1 July 2012 and 23 October 2013 had not been captured into the system. This appeared as an over-banking as indicated below:

BOMET MUNICIPAL COUNCIL RECEIPT ANALYSIS		
DATE	PARTICULARS	AMOUNT
2nd July 2012 to 2nd March 2013	Receipts	25,789,462.00
2nd July 2012 to 2nd March 2013	Direct Banking	0
		25,789,462.00
2nd July 2012 to 2nd March 2013	Bank Listing	30,800,306.00
	overbanking as at 2nd March 2013	-5,010,844.00
6th March 2013 to 23rd Oct 2013	Receipts	9,842,675.00
6th March 2013 to 23rd Oct 2013	Direct Banking	21,600.00
		9,821,075.00
6th March 2013 to 23rd Oct 2013	Bank Listing	7,366,962.00
	Underbanking as at 23rd Oct 2013	2,454,113.00

- Payments of Kshs.6,532,982 were made between 6 March 2013 and 17 July 2013 of which Kshs. 4,607,457(70%) were cashiers drawings.

Bomet County council

- There was an under-banking of Kshs.4,674,572.00 between 2 July 2012 and 22 October 2013 as shown:

COUNTY COUNCIL OF BOMET UNDERBANKING		
DATE	PARTICULARS	AMOUNT
2nd July 2012 to 1st March 2013	Receipts	101,507,874.00
2nd July 2012 to 1st March 2013	Direct Banking	70,322,107.00
		31,185,767.00
2nd July 2012 to 1st March 2013	Bank Listing	20,798,460.00
	Underbanking as at 1st March 2013	10,387,307.00
5th March 2013 to 22ndOctober 2013	Receipts	17,689,769.00
5th March 2013 to 22ndOctober 2013	Direct Banking	0
		17,689,769.00
5th March 2013 to 22ndOctober 2013	Bank Listing	22,364,341.00
	Overbanking as at 22nd October	-4,674,572.00

- Payments amounting to Kshs. 34,473,848.00 was made through the system between 7 March and 24 May 2013. Kshs. 22,558,017 (65%) of this amount was cashier's withdrawals.

Risks

Lack of automated systems in the three other Sub-Counties may make it impossible for the County to effectively monitor its revenue collection.

Recommendations

- i. The County management should take control of the management of LAIFOMS previously installed in the Local Authorities so as to ensure that revenue collection is accounted for.
- ii. The County should ensure that each Sub-County has a system in place to monitor the collection of its revenue and ensure that all expenditure incurred is centralized.
- iii. The County should ensure that all revenue collected is banked intact and captured in the system.

G-Pay

The County had received one (1) computer from the CBK to facilitate execution of payments transactions; however it has not been in use because IFMIS has not been initiated.

Integrated Payroll and Personnel Database (IPPD)

The County had not finished the implementation of IPPD and payroll processing was being carried out manually. The payroll manager in place did not have adequate support from the DPM. The ICT staffs were also not involved in the implementation of the system and they were not able to offer required support.

IT Control Environment

Staffing and Segregation of duties

The County had four ICT staff to provide support to the applications in place.

Management of IT Operations

The County has no executive member in charge of ICT and also no ICT manager to foresee the running of ICT investments in the county.

The County had not developed the key ICT documents which include; ICT strategies, ICT policy and procedures and BCP/DRP. The County had no ICT steering committee in place.

2.2 COUNTY ASSEMBLY

2.2.1 Lack of separation of powers/Authority

The County Executive and County Assembly were to operate on separate approved budgets in accordance with the County Government Act No.17 of 2012. It was observed that the County Assembly depends on the County Executive for all its expenditure needs. The County Executive facilitated the Assembly through regular issuance of imprests which were surrendered and accounted for in the books of the County Executive. There was thus total lack of separation of powers and authority as was envisaged in the Act.

In essence, the County Assembly failed to exercise its independence the result of which the Assembly may fail in its financial oversight role if the County Executive denies it necessary financial and other resources needed to operate and discharge its duties as mandated in law. There is need for the County Executive to cede necessary financial control to the County Assembly.

2.3 DEFUNCT COUNTY COUNCIL OF BOMET

2.3.1 Cash and Cash Equivalent

The bank accounts of former County Council of Bomet remained in operation after the 28 February 2013 deadline provided by the Transitional Authority for closure of the accounts. The accounts held a total of Kshs.24,052,208.80 as at 28 February 2013. At the time of closure of the accounts on the 27 June 2013, the accounts had a balance of Kshs.1,020,986.80 which was transferred to KCB County Government Current bank account number 1143078756. The transfer of the funds was confirmed and verified. However, Kshs.23,046,608.15 being the difference between the bank account balances as at 28 February 2013 and 27 June 2013 when the accounts were closed represents amount spent by the Council without approval from the Transitional Authority.

2.3.2 Current Debtors Balances

The debtors' balances as at 30 June 2013 was Kshs.197,727,700. The Council maintained a debtor's ledger and plot rent registers for the debtors. However, debtors circularization was not done to confirm the actual balances. Further, no movement schedule was availed to show how the debtors moved during the year. The debtors' balances are likely to be misstated in the absence of accurate records. Circularization of debtors should be done to ascertain the true balances as at the handing over date.

2.3.3 Current Suppliers/Creditors Balances

Outstanding creditors' balances amounting to Kshs.10,062,383 were transferred to the County Government comprising NSSF Kshs.4,151,64 Laptrust Kshs.2,587,229, Lapfund Kshs.195,514.90, KENAO Kshs.2,128,000 and legal fee Kshs.1,000,000. Creditors' invoices and statements were not availed to support the creditors' balances in the ledger. Circularization of creditors was not done and therefore it was not possible to ascertain the correct outstanding balances transferred to the County Government.

2.3.4 Revenue

The Council collected a total of Kshs.78,328,408 for the period January to June 2012 while Kshs.20,973,783 was collected for the same period in the year 2013. The Council experienced a net decline of Kshs.57,354,625 for which no proper explanation has been given. The huge decline of revenue during the transition period raises suspicion of irregularities in revenue collection and surrender. The Transitional Authority and the County Government should cause this issue to be investigated to confirm that the decline in revenue collections was not by design.

2.3.5 Non-Current Assets

(i) Land

The detailed list of the assets of the County Council of Bomet excluded parcels of land valued at 65,000,000 made up as follows:

-Chebunyo Open Air Market	4,410,000
-Chebunyo Cattle Auction yard	3,520,000
-Siongiroi Market Centre	55,607,000
-Kericho/Kaboson Open Market	<u>1,470,000</u>
	<u>65,007,000</u>

(iii) Motor Vehicles

The defunct County Council of Bomet disposed the following motor vehicles and machinery whose disposal process had been earlier approved both by Treasury and the Ministry of Local Authorities:

- Motor vehicle-L/Rover 110-KWE 126
- Motor vehicle-Peugeot 504 KAC 476
- A dozer D 6c – KHS 878
- Motor Grader CAT G 120 – KPJ 435
- A roller D 12 – KAB 204Q.

No audit issues were observed in this respect.

2.3.6 Audit of Human Resources and IPPD Payroll and establishment

The County Council of Bomet had fifty five (55) permanent employees and forty two (42) temporary staff who were all transferred to the County Government. The personal details of the employees were verified as correctly stated. No changes were noted in appointments, promotions or terms of service to any of the Council employees.

2.5 DEFUNCT MUNICIPAL COUNCIL OF BOMET

2.5.6 Cash and Cash Equivalent

The Municipal Council of Bomet operated seven (7) bank accounts the list of which was submitted and confirmed. The Cash Books maintained for the period under audit were updated. All Revenues collected for the period were vouched through the revenue receipt books, banking in slips and traced to the bank statements.

The bank accounts remained operational beyond the 28 February 2013 deadline provided by the Transition Authority. The account balances as at 28 February 2013 were Kshs.1,379,306.61 and Kshs.26,188.95 as at 27 June 2013 when they were closed and the balance transferred.

2.4.2 Current Debtors Balances

The debtors' balance as at 30 June 2013 was stated as Kshs.63,677,786. The Council provided unsigned handing over notes of outstanding debtors to the County Government without the relevant support documents. Debtors' circularization was not done and therefore the actual outstanding balances could not be ascertained. The Transitional Authority and the County Government should cause preparation of proper records based on supporting evidence to be handed over to the County Government.

2.4.3 Current Suppliers/Creditors Balances

The handover notes of creditors' balances totaling Kshs.11,212,050 as at 27 June 2013 were provided to the County Government. They included Statutory creditors of Kshs.9,568,555 and general Suppliers of Kshs.1,643,495. Although the Council maintained a creditor's ledger, there were no creditors' invoices and statements to support the balances. Therefore, the accuracy of the creditors balance of Kshs.11,212,050 as at 27 June 2013 was not confirmed. The Transitional Authority should cause preparation of proper records based on supporting evidence and a decision made as to who discharges the creditors.

2.4.4 Revenue

Revenue collections for the months of January to June for the comparative years of 2012 and 2013 showed a marked revenue drop of Kshs.5,602,390 being the difference between Kshs.14,170,390 reported in 2012 and Kshs.8,568,209 reported in 2013 for the captioned period. The months of January and February experienced the highest drop in revenue collection Kshs.9,731,712. No satisfactory explanation has been given for this sudden drop in revenue and the possibility of malpractices in order to defraud the former Council during the transition period could not be ruled out. The Transitional Authority and the County Government should cause this issue to be investigated to confirm that the decline in revenue collections was not by design.

2.4.5 Non-Current Assets

The two motor vehicles and a tractor that were transferred to the County Government were in good working condition and had their log books transferred as well. Eleven (11) office buildings were transferred to the County Government. The buildings had not been valued and therefore no values were assigned. Office furniture and equipment valued at Kshs.1,069,000 were also transferred although no inventory records were forwarded to the County Government to support the furniture and equipment.

The completeness of the furniture and equipment that the County Government took over could not be ascertained. The County Government should confirm the completeness of the assets of the former Councils and value the buildings to ascertain the market values for the purpose of planning and record.

2.4.6 Audit of Human Resources and IPPD Payroll and establishment

The Municipal Council of Bomet had forty six (46) permanent employees and eight five (85) temporary staff who were all transferred to County Government. The personal details of the employees were verified as correctly stated. However, the employees have not been subjected to the County Public Service Board for confirmation and deployment. The board, which by now ought to have been set up and operational should carry out this function as provided.

2.5 FORMER TOWN COUNCIL OF SOTIK

2.5.1 Cash and Cash Equivalent

The bank accounts for the defunct Town Council of Bomet operated beyond the 28 February 2013 deadline given by the Transition Authority. A total of Kshs.1,298,865.08 was in the bank accounts as at 28 February 2013. At the time of closure of the accounts on the 27 June 2013, the accounts had a total of Kshs.616,701.41 which was transferred to Cooperative bank of Kenya bank account number 01141356751800. The

Council therefore, spent Kshs.917,631.73 without the approval of the Transition Authority.

2.5.2 Current Debtors Balances

The defunct Town Council of Sotik provided the County Government debtors' handing over notes for Kshs.57,146,982. The supporting documents were not provided for the outstanding balances and there was no circularization done to confirm the accuracy and reliability of the balances. The Transitional Authority and the County Government should cause preparation of proper records based on supporting evidence to be handed over to the County Government.

2.5.3 Current Suppliers/Creditors Balances

Town Council had outstanding creditors totaling Kshs.53,994,740 whose handing over notes were presented to the County Government. Creditors' invoices and statements were not availed for audit. The outstanding balances could therefore not be confirmed as being fairly stated. The Transitional Authority should cause preparation of proper records based on supporting evidence and a decision made as to who discharges the creditors.

2.5.4 Revenue

Revenue records of the defunct Town Council of Sotik for the period January to June 2012 and January to June 2013 were not availed for audit despite our request for the same. In the circumstances, it was not possible to ascertain how much was collected for the period and how the amount was accounted for. The requested records should be availed for audit confirmation.

2.5.5 Non-Current Assets

The Council handed over noncurrent assets amounting to Kshs.45,182,194 made up of: Land Kshs.21,034,000, office Buildings Kshs.18,973,614 Institutions Kshs.2,737,000, Motor Vehicles and Plant Kshs.1,586,000 and Office Equipment and Furniture Kshs.851,580. The land did not have title deeds but all the motor vehicles transferred had logbooks and were serviceable. The former council however had not valued the assets as at the time of transfer. The County Government should confirm the completeness of the assets of the former Council and value the assets to ascertain the market values for the purpose of planning and record.

2.5.6 Audit of Human Resources and IPPD Payroll and establishment

The Town Council of Sotik had twenty eight (28) permanent staff and twelve (12) temporary workers all of whom were transferred to the County Government. There were