

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

REPORT
OF
THE AUDITOR–GENERAL
ON THE
FINANCIAL OPERATIONS
OF
NYERI COUNTY

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

EXECUTIVE SUMMARY

1.0 Introduction

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 Further, the County Government Act, 2012 Section 134 (1) repealed the Local Government Act, Cap 265, and thus effectively dissolving all the 175 Local Authorities and creating 47 County Governments.

1.2 According to Transition to Devolved Governments Act, 2012, after the general election on 4 March 2013, the functions, assets, liabilities and staff of the former Local Authorities were to be taken over by the County Governments. The former Local Authority under Nyeri County include, Municipal Council of Nyeri, Municipal Council of Karatina, County Council of Nyeri and Town Council of Othaya. 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.

2.0 Audit Objectives

The objective of the special audit exercise was to ensure existence of a seamless transition process and proper systems for accountability of public resources before, during and after transition to County Governments.

The audit covered the following key areas:

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

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

3.0 KEY FINDINGS

NYERI COUNTY EXECUTIVE AND COUNTY ASSEMBLY

3.1 Improper handing over/taking over from the Defunct Local Authority

There was no proper handing over/taking over of the defunct Local Authorities assets and liabilities to the Transition Authority as required by the Circular from the Ministry of Local Government dated 18 February, 2013. This hindered smooth transition and taking over by the County Government.

Transition Authority is advised to ensure that proper handing over by the former Chief Officers is done to enable the County Government ascertain opening balances for assets and liabilities for inclusion in the financial statements.

3.2 Cash and Bank Balances

The defunct Local Authorities under Nyeri operated several bank accounts prior to transition to County Government. However, most of these bank accounts continued to operate as late as 30 June 2013 in total disregard to the County Government Public Finance Management Transition Act, 2013, which required that the bank accounts be closed and reconciliations done within three months with effect from 5 March 2013.

Further, the County Government opened an imprest Bank Account at Co-operative Bank. However, at the time of conclusion of this audit in September 2013, no bank reconciliation statements for this account had been prepared.

The accounting officer should ensure that all bank accounts for the former Local Authorities are closed and the balances transferred to the County Revenue Account. The accounts maintained by the former Local Authorities should also be reconciled to ascertain the closing balances.

3.3. Procurement

We noted that the County Government was not following Public Procurement Rules and Regulations. Examples:

i) Weakness in control of stocks - Un-accounted for fuel

The County Government purchased bulk fuel worth Kshs.1,100,000.00 from three (3) different suppliers. However, the County Government did not maintain a fuel register to record the fuel purchased. Further, the statements of fuel drawn and work tickets of motor vehicles fueled were not attached to the payment vouchers to support the payment as the regulations require.

ii) Undelivered Motor Vehicle

The County Government procured and fully paid for a Toyota Land-Cruiser from Toyota Kenya costing Kshs.9,959,105.00 on 16 May 2013. However, the County Government paid for this vehicle before it was delivered contrary to Public Procurement Regulations. The whereabouts of the vehicle should be established and proper explanation provided for effecting full payment before delivery of the vehicle.

iii) Double Procurement of Hansard Communication Equipment

The Transition Authority through Nyeri Sub-County Treasury AIE Procured Hansard Communication Equipment worth Kshs.1,900,000.00 on behalf of Nyeri County Assembly at the beginning of June, 2013. Records also indicated that the County Government awarded a similar tender for installation and commissioning of Hansard Communication Equipment at the end of June 2013 to a different contractor at a contract price of Kshs.7,099,270.00. This amounted to double procurement leading to loss of public funds.

iv) Repairs to Motor Vehicles

The County Government undertook repairs to GK A 307 H and GK A 421L from two firms at a cost of Kshs.235,369. However, it was noted that there were no inspection reports for the repairs of the two motor vehicles, the work ticket did not indicate any defects, movement to the garage or date of repair. The concerned officer should account for the funds in full or else be held accountable for the irregularities noted.

Recommendations

- 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 should be put in place.

3.4. Summary of ICT audit findings

i) Hardware

The County Government had received nineteen (19) computers and special orange CDMA modems from The National Treasury (IFMIS Department) which were to be solely used for IFMIS.

ii) Software

a) Integrated Financial Management Information System (IFMIS)

IFMIS had been installed in the County but it is not operational.

b) G-Pay

The County had received one computer from The National Treasury which was dedicated for G-Pay. However, payments were made manually through cheques.

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

LAIFOMS had been installed in the Sub-Counties. Review of the system revealed that there were weak logical access controls and system under banking amounting to KShs.19, 248,461.00.

d) Integrated Payroll and Personnel Database (IPPD)

The County had fully installed the IPPD system, however a review of the human resource payroll and data revealed the following issues:

- An officer's basic pay was overpaid by KShs.5,830.
- Deductions previously effected in the LAIFOMs were not effected in the IPPD.
- Inaccuracies or missing data about employees' date of birth and date of hiring.

iii) IT Control Environment And ICT Governance

- The IT section had five (5) staff who have defined roles and responsibilities on how to oversee the IT operations. However, access rights did not provide segregation of duties.
- The ICT manager had carried out a comprehensive ICT assets inventory at the County Executive headquarters and all the Sub-County offices.

Recommendations – IT audit

- The County was not using the IFMIS for day to day transactions. There is need for tighter controls on logical access to the system. Data inaccuracies in the payroll need to be addressed to ensure correct and complete information is captured in the system.
- The County should ensure correct and accurate information is captured in the system.
- The County management should put in place compensating controls to mitigate against the risks due to lack of segregation of duties.

DEFUNCT TOWN COUNCIL OF OTHAYA

3.5. Improper Handing over to the County Government.

There was no proper handing over of the former Town Council of Othaya assets and liabilities to the Transition Authority as required by the circular issued by Ministry of Local Government in February, 2013. Consequently, the County Government could not have a basis for the 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 Town Council is done to enable the County have accurate records of assets and liabilities inherited from the former Council.

3.6. Cash and Bank Balances

The defunct Town Council operated six (6) bank accounts which had a total bank balance of Kshs.6,228,575.00 as at 30 June 2013. The Bank account continued to operate up to as late as 30 June 2013 contrary to the above requirement. Further the defunct Council did not maintain the cashbook for all the accounts and no reconciliations were made available to confirm the bank balances. As a result, the balances for all the defunct Council's bank accounts could not be confirmed. The Council did not comply with the Transition Authority Circular which required that Local Authorities close bank accounts formerly operated by them by 5 March 2013, or within three months after the general elections to allow for reconciliations as required by the Count Government Public Finance Management Transition Act, 2013.

The County Government should maintain all the necessary cash books and ensure the bank reconciliation statements are prepared on a monthly basis.

3.7. Debtors

The Town Council of Othaya had outstanding property rates, single business permits and house rents totalling Kshs.6,105,360.00 as at 30 March 2013. However, the defunct Council did not have a debtors collection policy which led to the debtors balance, which remained uncollected.

We recommend that appropriate systems for recording debtors by the County Government be developed to ensure accuracy of records. Also, a 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.

3.8. Suppliers' Balances

The defunct Council disclosed liabilities amounting to Kshs.12,696,205.00 as at 28 February 2013. However, the defunct Town Council did not maintain proper records to show the correct position of creditors before, during and after transition period. The balances disclosed therefore could not be confirmed.

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 confirmed independently before effecting any payments.

3.9. Motor Vehicles

The defunct Council had eight (8) Motor Vehicles, all in good working condition before, during and after transition period. However, those vehicles had not been officially transferred to County Government as at 30 June, 2013.

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 be systematically recorded in the Fixed Assets Register (FAR) of the County Government. The register should be updated on a regular basis. The assets should be valued to ascertain the fair values.

3.10. Lack of Expenditure Control - Irregular Payments

An amount of Kshs.496,980.00 relating to travel and night out allowances paid to various Council employees was not properly accounted for since the nature of the duties performed and the details of travel were not disclosed. In addition, the defunct Town Council paid Kshs.621,800.00 to various casual employees for carrying out conservancy work in the Council markets. However, the propriety of this payment could not be ascertained in absence of supporting documents.

DEFUNCT MUNICIPAL COUNCIL OF NYERI

3.11. Improper Handing Over to Transition Authority/County Government.

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

3.12. Motor Vehicle and other Assets

Examination of Assets Register of the defunct Municipal Council showed that all the Assets of the Municipal Council of Nyeri were intact before and after Transition. Most of these assets were being used within the Departments at the County Head Office. However there were no records to show that all these assets and motor vehicles had officially been transferred to the County Government.

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.

3.13. Cash and Bank Balances

The defunct Municipal Council of Nyeri operated fifteen (15) bank accounts. The former Council was unable to close the bank accounts by 5 March 2013 as required by Transitional Authority and also did not hand over the bank accounts or transfer the bank mandates to the incoming County Government as at 30 June 2013.

Further, the previous signatories continued to approve payments while revenue continued to be banked in the defunct Council's accounts with no regard to the PFM Transition Act, 2013, which provided for the same to be transferred to County Revenue Fund. The Council did not provide cashbooks, all bank statements and did not prepare monthly bank reconciliation statements for all the bank accounts and therefore, the bank balances could not be confirmed as accurate.

3.14. Debtors' Balances

The defunct Council disclosed debtors' balances amounting to Kshs.703,434,774.00 and Kshs.761,115,424 as at 30 June 2013. However, the defunct Municipal Council did not have a debtors' collection policy, thus the debtors balances have been outstanding for long period. Further, the debtors balances could not be confirmed since the debtors' registers and ledgers were not made available for audit verification.

We recommend that a debt collection policy should be put in place to facilitate collection of County debts as and when they fall due in future. Further, debtors ledgers should be updated regularly to reflect true position of the balances at any given time.

3.15. Creditors/Suppliers Balances

The defunct Municipal Council in its handing over memo to the Transition Authority disclosed liabilities amounting to Kshs.530,765,756.00 as at 28 February 2013. In addition, the Council provided another list of creditors with a balance of

Kshs.47,250,219.00. The Council did not maintain creditors' ledgers or any other record to facilitate tracking of all liabilities and how payments were made to the creditors.

The creditors' ledgers should be updated in order to reflect the correct position of creditors to avoid payments being made to fictitious suppliers. Invoices raised during the transition period should be thoroughly investigated and validated before effecting any payment.

3.16. Revenue

The defunct Municipal Council collected a total of Kshs.196,099,207.00 between January and June 2013. However, a review of the bank statement for the respective bank accounts revealed that only Kshs.122,778,886.00 was banked in these accounts, resulting in an unexplained under-banking of Kshs.73,320,321.00.

Proper reconciliation should be done between bank records and LAIFOM to establish the correct position of total revenue collected and how it was recorded and accounted for.

3.17. Procurement

Review of procurement procedures and records revealed the following weaknesses:-

(i) Payment for services not rendered

The defunct Council raised LPO's and made payments towards printing of receipt books in January 2013 at a cost of Kshs.4,049,220.00. The payments were made, yet the it was known that the Council was to be dissolved the following month, February 2013. Further, there was no record of receipt of the receipt books despite the amount having been paid in full.

(ii) Single Sourcing of Consultancy Services

An amount of Kshs.2,079,987.00 was paid to a consultancy firm in respect of Consultancy Services for Kamakwa Market. However, the said Consultancy Services were single sourced contrary to Public Procurement Regulations. Further, this expenditure had not been budgeted for and the expected report for the consultancy services was not made available for audit verification. Under such circumstances the defunct Council may not have realized value for its money on this contract.

Further, payments were made in respect of consultancy services rendered in the month of February 2013 amounting to Kshs.5,809,423.00 despite the fact that the Council was to be dissolved the same month, hence the consultancy report could not be implemented.

It was observed that no single consultancy report was submitted as there was no time for the same as the Councils were being dissolved raising questions as to where the real work was done, except for report of staff. This is viewed as waste of public funds through nugatory expenditure.

Expenditure incurred during the transition period should be investigated and ineligible expenditure recovered from culprits. Elaborate expenditure control and authorization should be put in place.

DEFUNCT COUNTY COUNCIL OF NYERI

3.18. Improper Handing over to the County Government

There was no proper handing over of the former County Council of Nyeri assets and liabilities to the Transition Authority as required by the Circular issued by Ministry of Local Government in February, 2013. Consequently, the 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.

3.19. Cash and Bank Balances

i) Closure of Bank Accounts

The defunct Council did not comply with the Transition Authority Circular which required Local Authorities to close bank accounts formerly operated by them by 5 March 2013, or within three months after the general elections to allow for reconciliations as required by the County Governments Public Finance Management Transition Act, 2013. The accounts were still operational by 30 June 2013. This implies that the non-existence Council continued to receive revenue and make payments from these bank accounts. Failure to close the bank accounts is contrary to the law.

ii) Bank Balances

The defunct Council operated six (6) bank accounts before, during and after transition period and the total bank balances as at 8 March and 30 June, 2013 were Kshs.128,909,791.00 and Kshs.120,315,656 respectively. These balances excluded Kshs.20,000,000.00 Fixed Deposits in Co-operative Bank, Nyeri. However the existence of Kshs.20,000,000.00 investment deposit could not be confirmed because bank confirmation certificates were not made available. In addition, no evidence of any transfer of the said investment's proceeds upon maturity was made available for audit.

iii) Inaccurate records of bank payments

The defunct Council did not maintained accurate and up to date records of the bank payments. Several cheque payments were missing from the LAIFOMS cashbook and yet the same cheques had been paid out by the bank. In addition, other cheques issued differed in amounts recorded in the cashbook and that paid out by the bank. Proper expenditure records should be maintained and all expenditure transactions should clearly recorded.

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 proper charge to public funds. Cashbook records should be updated and monthly bank reconciliations done to support the accuracy of the balances.

3.20. Motor Vehicles, Office Equipment and other Non-current Assets

The defunct Council had not officially handed over a statement of assets and liabilities to the County Government of Nyeri at the time of audit. No proper documentation of the total value of assets as at the close of reporting periods was made available. As a result, the position of motor vehicles and other noncurrent assets could not be ascertained. The County Government should ensure all former Council assets including motor vehicles are handed over to them.

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.

3.21. Debtors Balances

The Defunct Council had not officially handed over its assets and liabilities to the County Government of Nyeri as at 30 June 2013. Further, no documentation as at the close of the reporting periods was made available. It was therefore not possible to ascertain the position of debtors as at the time of this audit. Accurate and updated debtor records should be maintained and made available for audit verification.

3.22. Creditors/Suppliers

The defunct County Council did not make available Creditors' records and documents to show the creditors' balances at the time of this audit. Therefore, the Council's Creditors/Suppliers balances at the time to this audit could not be confirmed. However, the documents made available showed that there was unremitted NSSF debt of

Kshs.26,927,359,00 and Local Authority Pension Trust debt of Kshs.1,193,041.00. These debts had been disputed by the Council and the issue had been outstanding for a long period. However, no records were made available to show how the above figures were arrived at and therefore they were not supported.

The 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 confirmed independently before effecting any payments.

3.23. Revenue Collection and Banking

The defunct Council collected revenue amounting to Kshs.165,482,851 between January and June, 2013. However, during the same period, the defunct council did not bank revenue collected amounting to Kshs.23,701,366.00. These under-bankings arose because of spending revenue prior to banking contrary to government financial regulations. Further, the Council did not indicate how the banked amount was utilized and accounted for. Comparison of revenue collection for the period January to June 2012 and January to June 2013 showed revenue decline of Kshs.131,741,457.00. This enormous decline of revenue collections suggest pilferage of cash collections and should be investigated to ensure no misuse of revenue took place.

3.24. Lack of control of LATF Project

The Council awarded a construction company the contract for construction of Kiawara Open Air Market at a contract sum of Kshs.10,300,000.00. Physical verification of the project revealed that although 66% of payments had been made yet major works had not been undertaken. It was therefore, unclear how the project will be completed when only Kshs.3,500,000.00 remains the unpaid balance. The council may not get value for its money on this project. The County Government should investigate how funds for the projects were utilized.

3.25. Expenditure

Review of expenditure control procedures and accountability revealed the following weaknesses:-

i) Missing Payment Vouchers Kshs.6,151,454

The defunct Council did not make available various payment vouchers reflected in the LAIFOMS payment register for KCB main bank account number 110849527 with an amount of Kshs.6,151,454.00 for audit review. The missing vouchers should be made available for our audit verification.

iv) Irregular subsistence allowance to former Councilors

The defunct Council paid a total of Kshs.1,678,000.00 to the former Councilors just before dissolution of the Council. The payment was in respect of subsistence allowance paid to the councilors while attending an HIV/Aids seminar on 6th to 8th January 2013. However, the details of the seminar including the means of travel were not disclosed. This appears to have been an illegal send of payment to councilors before the dissolution of the council but paid in a way of subsistence allowance. The payment was therefore irregular.

v) Unaccounted for fuel

The defunct council purchased fuel worth Kshs.770,956.00 during the period under review. However, the defunct council did not provide details of how the fuel was utilized or accounted for.

vi) Payment for consultancy services

The Council paid a total of Kshs.4,110,770.00 in respect of various consultancy services. However, the resulting reports were not made available for audit verification. Under such circumstances, we could not ascertain whether the services were actually rendered to the Council.

Recommendations

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 should be put in place.

DEFUNCT MUNICIPAL COUNCIL OF KARATINA

3.26. Improper Handing Over to the County Government

There was no proper handing over of the former Municipal Council of Karatina assets and liabilities to the Transition Authority as required by the circular from Ministry of Local Government dated 18 February, 2013. The handing and taking over report did not include cash and bank balances for the Council. The Transition Authority should ensure a proper handing over by the former chief officers to enable the County Government ascertain opening balances for their books of account.

3.27. Cash and Bank Balances

The defunct Municipal Council of Karatina did not freeze, close and then transfer all the funds in the said banks account to the County Revenue Account as required. The banks

were still operational even on June 2013 and after. Ten (10) out of the eleven (11) bank accounts held and disclosed by the defunct Municipal Council of Karatina as at 30 June 2013 had a total balance of Kshs.8,346,831.10. However, no bank reconciliation statements were prepared therefore the bank balances for all the accounts could not be confirmed. The total revenue collection for the defunct Council was Kshs.16,093,602.00. However this amount had not been transferred to the County Revenue Account as required.

Failure to close bank accounts implied that revenue collections continued to be banked in these accounts, and expenditure incurred, contrary to the law. The bank accounts should be closed and balances transferred to the County Revenue Account. Expenditure incurred during the period should also be investigated and confirmed as proper charge to public funds. Cashbook records should be updated and monthly bank reconciliations done to support the accuracy of the balances

3.28. Debtors' Balances

The defunct Town Council had not officially handed over its assets and liabilities to the County Government of Nyeri as at 30 June, 2013. The Council did not close its debtors balances properly since proper debtors' records were not maintained. The position of council debtors' balances as at 30 June 2013 could therefore not be confirmed.

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 debts recovered.

3.29. Creditors'/Suppliers Balances

The defunct Council disclosed liabilities amounting to Kshs.102,937,533.00 as at 28 February 2013. However, the defunct Town Council did not maintain proper creditors' records to show the position of creditors before, during and after transition period. Further, in the absence of proper creditors' records, the creditors balance disclosed could not be 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.

3.30. Motor Vehicle and Other non-Current Assets

The defunct Town Council had not officially handed over a Statement of assets and liabilities to the County Government of Nyeri as at 27 March 2013. The value of the assets was not indicated on the statement of assets and liabilities held by the County Government of Nyeri and no proper documentation of the total value of assets as at the close of this period was made available. The position of Motor Vehicle and Other Non-Current Assets could therefore not be ascertained.

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

3.31. Revenue Collection and Banking

The defunct Municipal Council collected revenue amounting to Kshs.41,154,206.00 between January 2013 and June 2013. However, Kshs.817,421.00 was under-banked meaning that the defunct Council directly spent its revenue during the period. However, no expenditure analysis was made available to show how the under banked amount was accounted for. This was against the Financial Regulations which require that all revenue collected be banked intact.

Detailed analysis of 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.

3.32. Irregular Payment of Uniform Allowance in arrears – Kshs.354,798.00

The defunct Municipal Council of Karatina made payments in respect of arrears for uniform allowance amounting to Kshs.354,798.00. However, the management did not explain what this allowance that was being paid in arrears. The payment of this allowance which was not explained was therefore irregular. The County Government should address the above issues and ensure explanations are provided where necessary.

4. Conclusion

The forgoing observations indicate that the process of taking over of assets and liabilities, including staff of the former Councils was not properly handled due to possible lack of leadership by officials of Transition Authority who had the responsibility to ensure a smooth and seamless transition process. Similarly, according 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.

The County Government of Nyeri should however ensure full control of functions, including revenue collection, recording and proper accounting for the same while awaiting guidance from the National Treasury based on the accounting and reporting systems to be developed by the Public Sector Accounting Standards Board. Expenditure should be incurred in accordance with the requirements of the Public Finance Management Act, 2012 and for the benefit of the tax payers.

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

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

Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

19 February 2014

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

1.1. Objectives of the Audit

Since the financial systems were not in place during the transition, a special audit was conducted during the month of August/September 2013 in Nyeri County, the defunct Council of Nyeri, Municipal Council of Nyeri, Municipal Council of Karatina and Town Council of Othaya. The objective was to:

- (i) Confirm if there was smooth transfer of cash and bank balances before, during and after transition to the County Government.
- (ii) Confirm that revenue and expenditure were recorded and properly accounted for during the transaction period.
- (iii) Ensure that the transactions undertaken during the transition were properly authorized, goods received and services rendered.
- (iv) Confirm that operational debtors were accurately transferred from defunct Local Authorities account to County Government.
- (v) Establish assets taken over by the County Government are properly listed and are in County public use only.
- (vi) Ensure the assimilation of the defunct Local Authorities' staff with other County staff is seamless and no ghost workers or irregular change of items have been imported in the new IPPD payroll.
- (vii) Ensure that the County Assembly and Executive Committee complies with the budget and that expenditures are properly charged to County Revenue Fund.
- (viii) Ensure that ICT system is not circumvented by manual system where IFMIS and G – Pay are fully implemented.
- (ix) Ensure that where manual systems are in use, proper accountability is in place and specific plans are there as the system changes over.

1.2. Scope of Audit

The audit covered the County Government of Nyeri, defunct County Council of Nyeri, Municipal Council of Nyeri, Municipal Council of Karatina and Town Council of Othaya.

The audit mainly focused on cash and bank balances, current debtors' and supplies' balances, non – current assets, revenue and payroll and covered the period 1 January to 30 June 2013.

2.0 AUDIT FINDINGS

2.1. NYERI COUNTY EXECUTIVE OFFICE AND NYERI COUNTY ASSEMBLY

2.1. Handing over of assets and liabilities, Nyeri County

An inventory of assets and liabilities as at 31 December, 2012 was prepared, outlining lists of assets and liabilities of each defunct Local Council. However, at the time of conclusion of the special audit, Nyeri County Government had not officially taken over the assets and liabilities of the said defunct Local Councils. Under such circumstances we were unable to confirm the County's assets and liabilities balances could not be confirmed.

Recommendation

The County Government should ensure proper handing over of all assets and liabilities they inherited from defunct Council's. They should ensure that there is proper documentation of those assets and liabilities.

2.2 Unsupplied Motor Vehicle –Kshs.9,959,105

The County Government procured a Toyota Land Cruiser Prado 3.0 Litres (KDJ150RV) from Toyota Kenya vide cheque No. 0014, LPO No.1868122 of 16 May 2013 and invoice No. 70075748 of 16 May 2013 for Kshs.9,959,105.00. However, the vehicle had not been supplied to the county despite the amount having been paid in advance almost three Months earlier.

In addition, as per the 1st Nyeri County Government Tender Committee meeting minutes of 5 May, 2013, the committee approved the procurement of the said motor vehicle based on the Governor's preference, thus denying the County benefits of competitive bidding.

The County Government therefore irregularly paid for a vehicle which has not been delivered. The County was also in breach of the procurement procedures and regulations.

Recommendation

The County need to fast track the delivery of the said vehicle, failure to which the concerned officers be surcharged for the loss of funds.

2.3. Cash and Bank Balances

i) Opening of County Bank Accounts

It was noted that there was delay in changing the defunct Councils' bank accounts' signatories. The same were changed on 8 April, 2013, more than one month after March 4, 2013 General Elections. The County obtained new mandate to operate the accounts on 3 May, 2013.

Revenue raised within the County continued to be paid into the said defunct Councils' accounts up to the financial year end, 30 June, 2013.

Although the County Government opened an Imprest Bank Account No.01141511315000 at Co-operative Bank, Nyeri in April 2013 and received Kshs.229 Million from National Government it was noted that bank reconciliation of this account had not been done. Under such circumstances we were unable to confirm the actual cash balance could not be confirmed.

Further, it was observed that the County Government opened a County Revenue Fund Account No. 1140760319 at KCB, Nyeri on 2 July, 2013, more than three (3) months after assumption of office by the County Government. The Council was therefore in breach of the law.

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 proper charge to public funds. Cashbook records should be updated and monthly bank reconciliations done to support the accuracy of the balances.

2.4. Staff Imprest

An amount of Kshs.6,123,901 was issued as imprest between 30 April and 30 June 2013 to various staff members. However, no imprests register was maintained. Therefore, under such circumstances staff imprest balances and how the issued imprest was utilized could not be confirmed. The outstanding imprests were unaccounted for.

2.5. Payroll

The IPPD payroll for the County Government was operationalized in July 2013. However, it was noted that some data was not accurately captured especially where there were cases of tax exemption, loan deductions, insurance premium deductions and some employees were said to have been paid outside the pay roll. There was no parallel system to countercheck the accuracy of the new system. Although the payroll was used to make the July 2013 payments, its accuracy was doubtful and could have

resulted to irregular payments, overpayments, underpayments and inaccurate payroll data. There is therefore need for special audit on the ICT IPPD payroll by specialists in ICT.

2.6. Procurement

i) Unaccounted for fuel Kshs.1,100,000

The County management purchased bulk fuel worth Kshs.1,100,000 from three different suppliers. However, the County did not maintain a fuel register to account for the fuel purchases. They relied on suppliers' statements for amounts of fuel drawn, balances for undrawn fuel and accountability. Therefore, fuel balances and fuel drawn at any given point could not be confirmed from the County's records. It was not possible to establish the usage of the fuel in absence of the fuel register and other accountable documents.

Recommendations

The concerned officer should fully account for the fuel purchased without relying on third party records only.

vii) Repair of Motor Vehicles Kshs.235,369

Government financial regulations requires that any major repairs to government department motor vehicles should be based on an inspection report issued by the government mechanical engineer's department. The details of the specified defects and repairs should also be noted in the respective motor vehicles log book and work tickets.

Observation

The County Government undertook repairs of two (2) motor vehicles, GK A 307 H and GK A 421L, at a cost of Kshs.253,369.00. However, it was noted that there were no inspection reports for the repairs of the two motor vehicles, no defects were indicated by the driver in the work ticket and it was unclear how the defects were identified. The repairs to the GK A 421L were doubtful since it was not clear when they were done as the work ticket did not show any defects details or movement to the garage. Further, the motor vehicle did not make any movement between the 2/05/2013 and 1/06/2013 when the purported repairs were done on 23/05/2013.

The County was in breach of the government regulations, and the propriety of the payments of Ksh.235,369.00 could not be ascertained.

Recommendation

The concerned officer should account for the funds in full or else be held accountable for the irregularities noted.

2.7. IFMIS and G-PAY

- (i) The County had installed the Integrated Financial Management Information System (IFMIS).

Staff members within the ICT department had been trained and the training was still ongoing. The department was supplied with 16 desktop computers by the Ministry of Finance and had acquired 3 more and 2 laptops which the head of ICT considered sufficient to operate the system except for a few replacements of accessories. There was sufficient staff with the capacity to handle the system as explained by the head of ICT.

- (ii) The department had a Transnational Computer Technology (TCT) support staff who will be assisting the County resolve any difficulty in operations.
- (iii) The IFMIS was in its initial stages however, the transaction module had not been fully implemented.
- (iv) The G-Pay had been installed but awaiting the full implementation of the IFMIS for complete integration. The manual system was still in place.
- (v) The IFMIS had a budget chart of Accounts and could process budgetary reports.
- (vi) The IFMIS had not yet been integrated to the LAIFOMS since there was need for an application programme to link the two softwares.
- (vii) The revenue module in the LAIFOMS system was still in operation as it were in the defunct Councils now the Sub-Counties.
- (viii) The IFMIS had the ledgers module which could balance off ledgers and produce a report for preparation of financial statements.

It was observed that the County Executive Government on several dates held huge cash balances as analyzed below:

Date	Cash Balance Kshs.
2/05/2013	781,203
29/05/2013	6,707,500
June 2013	2,434,908
29/06/2013	1,706,289
June 2013	4,072,130

The above cash balances emanated from cash withdrawals for office use. This poses a high risk for loss of cash held and complicates the process of accounting for the cash used.

The County Government should establish a standard petty cash amount for office use. It was also noted that the County Executive Government had not established a standard petty cash float to run the office.

Recommendation

It is recommended that the County Government should operationalize IFMIS and G-Pay. Revenue collection should be automated at each and every collection centre, especially in the defunct Local Authorities. The outstanding imprests should be surrendered and properly accounted for within 48 hours after the financed task is completed failure to which it should be recovered from the salary of the staff concerned.

3. DEFUNCT TOWN COUNCIL OF OTHAYA

3.1. Handing over report

The defunct Council was required by law to have prepared a handing over report, detailing the assets, liabilities and staff it was supposed to hand over to the incoming County Government. However, no such report was prepared and handed over to the County Government even after the Council was reminded of the same by the PS Ministry of Local Government vide letter reference No. MLG/1333/TY/52 dated 18 February 2013.

Recommendations

The County Government should strive and carry out an inventory of all the assets and staff with the defunct Council and also carry out due diligence on all the liabilities either paid after the County Government came into being in March 2013 or outstanding as at 30 June 2013 to establish their genuineness or otherwise.

3.2. Motor vehicles

The defunct Council had eight (8) Motor vehicles, all in good working condition before, during and after the transition period. The vehicles had not been officially transferred to County Government as at 30 June, 2013.

3.3. Cash and Bank Balances

The defunct Council had the following bank accounts having the following balances before, during and after transition:

Bank Name	Account No.	PreTransition period as at 28.2.13 Kshs.	During Transition as at 27.3.13 Kshs.	Post Transition period as at 30.6.13 Kshs.
Equity	0080101540508	91, 576	413,455.28	1,779,161
Equity	0080201530229	128,381	1,861,798.50	4, 228, 730
Family	011000002392	NIL	NIL	NIL
KCB	01101572612	9, 178, 761	8, 060, 317.80	NIL
Co operative	011505509151900	NIL	NIL	205, 159
KCB	01116856344	106, 925	66, 825	65, 525
TOTAL		9,505, 643	10,402, 396	6,228, 575

Although the Council maintained all the required books of account and records, the bank accounts were not closed by 28 February, 2013 as required. The accounts continued to operate as late as 30 June, 2013.

3.4. Debtors Balances

The Debtors balances for the defunct Council had been outstanding for a long time. The outstanding balances as at 28 February and 30 June 2013 were as follows:

DEBTORS	Pre-Transition Period –as at 28 th Feb.2013 (Kshs.)	PostTransition Period as at 30 th March 2013 (Kshs.)
Contributions in Lieu of Rates (CILOR)	566,280.00	566,280.00
Property rates	10,755,204.00	10,673,230.00
Single business permits	4,769,500.00	4,769,500.00
House Rents/rentals	75,400.00	96,350.00
TOTAL	16,166,384.00	16,105,360.00

The defunct Council was unable to collect its major debtors because it did not have a debtor's collection policy. Under such circumstances, the suppliers' balances could not be properly confirmed.

3.5. Suppliers' Balances

Pre Transition Period

The defunct Council disclosed three suppliers' balances as at 28 February 2013, totaling **Kshs.12, 696, 205** as analyzed below:

Supplier Name	Amount (Kshs.)
LAPTRUST	5, 680, 887
Kenya Forest Service	1, 178, 642
Accumulated leave days	5, 836, 676
Total	12,696, 205

However, the defunct Council did not maintain proper records to show the position of liabilities before, during and after transition period.

Post Transition Period

It was noted that no transfer of liabilities to the County Government took place. No records or schedules were availed to confirm the position of the liabilities as at 30 June, 2013.

3.6. Procurement of goods and services

(i) Unsupported travel claims Kshs.496,980

Among the expenditure incurred by the defunct Council before change of signatories were unsupported travel and night out expenses totaling Ksh.496,980. Whereas the payment vouchers were supported by signed schedules bearing the name of the beneficiaries, nature of duties to be performed were not disclosed. In addition, no travel documents such as work tickets or bus tickets were availed to support the same. The date the officers travelled were also not disclosed.

The analysis of the said expenditure before, during and after transition is as follows:

Period	Amount –Kshs.
Pre Transition Period	352, 730
During Transition Period	NIL
Post Transition Period	144, 250
Total	496, 980

The propriety of these payments could not be ascertained.

Recommendation

Relevant supporting documents for the travel claim should be made available for audit verification.

ii) Unsupported payment on conservancy works Ksh.621,800.00

Payments amounting to Kshs.621,800 were processed in favour of various casual employees purported to have been carrying out conservancy works within the Council's jurisdiction. Whereas muster rolls were maintained in relation to the casuals, the payments didn't indicate the period to which they related. The nature of conservancy works were also not disclosed in the muster rolls. No ministerial approval was made to support the employment of these casuals. The breakdown of the sum of Kshs.621,800 is as follows:

Period	Amount –Kshs.
Pre Transition Period	344, 900
During Transition Period	117, 450
Post Transition Period	159, 450
Total	621, 800

The propriety of the above payments therefore could not be ascertained.

Recommendation

The County Government should investigate with a view to establishing whether the former Council had obtained authority to employ casual employees.

(iii) Governor's Office Refurbishment Kshs.1,999,450

The above figure includes purchase of various furniture items for the Governor's office.

However, the following was observed in relation to the above payments:

- a) Section 25 (3) of Public Procurement Regulations, 2006 provides that the procuring entity shall invite tenders only from persons pre-qualified under these regulations. It was noted that the suppliers had not been pre-qualified to supply furniture by the procuring entity, Nyeri District Treasury on behalf of Transition Authority contrary to Public Procurement Regulations.
- b) Although the items were officially taken on charge as evidenced by counter receipt vouchers (S13), deliveries were not evidenced by suppliers' delivery notes. In addition, the items were not posted to the County Government stores ledger.
- c) Existence of the suppliers could not be confirmed since the invoices supporting the payments did not bear physical addresses and telephone contacts

- d) The prices appear exaggerated though awards were made to the lowest responsive bidders

(iv) Installation and Commissioning of Hansard Communication Equipment

An amount of Kshs.1,997,550 was paid to a supplier on account of installation and commissioning of Hansard Communication Equipment at Nyeri County Assembly vide payment voucher No.3286 dated 4 June, 2013.

The following was observed in relation to this procurement:

- A similar tender for installation and commissioning of Handsard Communication Equipment was later awarded at the end of June 2013 to a different contractor at a contract price of Ksh.7,099, 270.
Examination of the bills of quantities for the two tenders revealed that all the items/requirements included in the first tender were also included in the second tender, items which had already been received and paid for within the same month of June 2013.
This amounted to double procurement and therefore public funds amounting to Ksh.1,997,550 were fraudulently lost.
- Section 17 (h) of Public Procurement Regulation, 2006 provides that the inspection and acceptance committee shall issue interim or completion certificate or goods received notes as appropriate per the contract.
Inspection and acceptance report and commissioning report were not availed for audit verification. In addition, the components supplied were not evidenced by delivery notes. Though we visited the site where installation was to be done was visited and the components that were supplied were seen confirm full delivery, installation and commissioning of the equipment could not be confirmed.
- There was no clear criteria used to select the three bidders that quoted for the works including the winning bidder since there was no evidence of pre-qualification process for the works.

Recommendation

The County Government should ensure that procurement regulations and procedures are adhered to when sourcing for goods and services as per the law.

4.0. DEFUNCT MUNICIPAL COUNCIL OF NYERI

4.1. Handing Over Report

The defunct Municipal Council was required by law to have prepared a handing over report, detailing the assets, liabilities and staff it was supposed to hand over to the

incoming County Government. However, no such report was prepared and handed over to the County Government even after the council was reminded of the same by the PS Ministry of Local Government vide letter reference No. MLG/1333/TY/52 dated 18 February 2013.

Recommendations

In absence of a signed handing over report, the County Government should strive and carry out an inventory of all the assets and staff with the defunct Council and also carry out due diligence on all the liabilities either paid after the County Government came into being in March 2013 or outstanding as at 30th June 2013 to establish their genuineness or otherwise.

4.2. Motor vehicles, office equipment and other moveable assets

Audit of the above item revealed that the assets for the Municipal Council of Nyeri were intact before, during and after Transition. However, it was observed that there was massive transfer of Assets especially Furniture & Fittings within the departments at the County Head Office, from the County Head Office to Sub-County Offices. In addition there were no records kept of such transfers for future references. Further some assets that had been earlier tagged to ensure asset identification had no tags; they had fallen off/ lost and therefore could not be verified.

Recommendation

The County Government should identify, take stock and tag all the assets taken over from the defunct 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.

4.3. Cash and Bank Balances

i) Non Closure of Bank Accounts

The defunct Municipal Council operated several bank accounts. However, the council was unable to close the bank accounts by 28 February 2013 as required by Transitional Authority and also did not hand over the bank accounts or change the bank mandates to the incoming County Government as late as 30 June 2013.

The previous signatories continued to approve payments while revenue continued to be banked in the defunct Council's accounts with no regard to the PFM Transitional Act, 2013 which provided for the same to be transferred to County Revenue Fund.

A review of the LAIFORMS system on cash and bank revealed that no cash books were maintained for all the bank accounts and no monthly bank reconciliations for all the bank accounts were prepared for the period January to June 2013, hence confirmations of the veracity of the bank balances could not be confirmed. Bank balance confirmation certificates as at 28/02/2013 at 30 June 2013 were also not availed.

In addition the County Government did not prepare monthly bank reconciliation statements and bank statements for short term deposit balances held at Co-operative and Consolidated Bank account were not provided. Further, the management continued to make payments and receive revenue in the same bank accounts despite the PFM transitional Act 2013 indicating clearly that the bank accounts should be closed by 28 February 2013.

Recommendations

In-depth audit of the cash and cash equivalent position of the defunct Municipal should be carried out to establish the correct cash position during transition period.

ii) Report on Cash and Bank Balances

The defunct Municipal Council operated fifteen (15) bank accounts before, during and after transition period. The audit revealed that the Council only availed bank statements/information for nine (9) out of fifteen (15) bank accounts whose total balances as at 8 March, 2013 and 30 June 2013 were Kshs.86,893,269 and 98,439,141 respectively:

Since the Council did not either maintain cash books or prepare monthly reconciliation statements, the accuracy of the bank balances could not be confirmed as accurate.

4.4. Debtors Balances

Pre Transition Period

The defunct Municipal Council had debtors' balances amounting to Kshs.703, 434,774 as at 28 February, 2013. The defunct Municipal Council did not have a debtors' collection policy, thus the debtors balances had been outstanding for a long period. Further, the debtors balances could not be confirmed since the debtors registers and ledgers were not made available for audit verification.

Post Transition Period

The defunct Municipal Council had debtors' balances amounting to Kshs.761,115, 424 as at 28th February, 2013. The defunct Municipal Council did not have a debtors' collection policy, thus the debtors balances had been outstanding for a long period.

Recommendation

The necessary debtors ledgers and registers should be made available for audit verification.

4.5. Suppliers Balances

The defunct Council in its handing over report to Transition Authority disclosed liabilities amounting to Kshs.530, 765, 756 as at 28 February, 2013.

The Council did not maintain a creditor's ledger. Further, no accounting record was kept to facilitate tracking of liabilities and how payments were made.

Further, the defunct Council availed a list of creditors on excel sheets as detailed below:

Liabilities	Amount Kshs.
Pending payments	401,187
Imprests	1,427,707
LPO's	602,095
Lawyers fees	2,838,810
Leave days & over time	37,949,092
Staff uniforms arrears	3,462,220
Unpaid staff	569,108
Total	47,250,219

However, the invoices or other accounting records to support the same were not provided for audit verification.

In the absence of the necessary creditors' records, the accuracy of the total defunct council's liabilities could not be established.

Recommendation

The necessary creditors' ledger should be maintained to support these balances.

4.6. Revenue Collection and banking

The defunct Municipal Council collected a total of Kshs.196, 099,207 between January and June 2013. However, Kshs.73, 320, 321 was not banked. The under banked amount was not explained or accounted for.

Recommendation

The Council should bank all revenue received as required by regulations.

4.7. Payroll

i) IPPD Payroll

The defunct Council was still using the LAIFOMs system for its operations up to 30 June 2013. However, from July, 2013, the County Government incorporated all the staff of defunct Councils in its IPPD payroll.

ii) Salary increase - Ksh.6,358,588

There was notable increase of salaries from the month of February 2013 of Ksh.6,358,588. The management attributed the increase to the implementation of long pending Collective Bargaining Agreement (CBA) between the Association of Local Government Employers (implemented on its behalf by Municipal Council of Nyeri) and Kenya Local Government Workers Union (KLGWU). However this assertion was not substantiated.

The monthly payroll analysis was given below as follows:

Period/Month	Amount (Kshs.)	Variance (Kshs.)	Reason
July 2012	11,697,154	-	
December 2012	14,761,375	3,064,221	Salaries included councilors allowances
January 2013	11,214,197	3,547,178	Salaries had no salaries and allowances for councilors
February 2013	11,042,465	(171,732)	
March 2013	17,401,053	6,358,588	Implementation of CBA
April 2013	17,385,607	(15,446)	Officer's salaries suspended
May 2013	17,363,905	(21,702)	Officer's salaries suspended
June	17,220,273	(143632)	Not explained

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.

Recommendation

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. Staff rationalization and redeployment of under-utilized and redundant staff is further recommended.

iii) Falsification of staff registration records

Examination of the staff personal files revealed that one officer by the name Alice W. Hunyu was born in 1952 (per her ID) and 1955 (as per Certificate of Birth), the officer must have falsified her birth details in obtaining the Birth Certificate (which was obtained recently). Therefore, going by her date of birth as per the National Identity Card, she should have retired in 2012. Her stay in the payroll is irregular and has been obtaining employment benefits illegally amounting to Kshs.240,860.

Recommendation

The officer should be laid off and the money obtained by her as salary and other benefits recovered.

4.8. Utilization of LATF funds

The budgeted expenditure for the LATF capital projects indicated Kshs.45 million had been set aside. Though a number of the projects had been earmarked for implementation, a number of issues were noted after physical verification of the projects as follows:-

i) Repair and renovation of town hall

The work had been procured through tendering and the tender awarded to New Age Developers & Construction Company Ltd.

Though the Company was incorporated on 21 December, 2010 and registered as a contractor category 'D' by Public Works Ministry on 15 April 2011, they submitted their bids in November 2012, before achieving the mandatory period of existence as per advert of 2 years since incorporation.

Though the contract bid was Kshs.12,158,262, the Council scaled the work to Ksh.7,088,025 without re-tendering. In addition, the budget had a provision of Ksh.3 million only. The following further observations were made:

- (i) The internal auditor's office was to be partitioned using aluminum sheets and glass at a cost Ksh.250,000. However, the contractor only removed the old partitioning and no new partitioning was carried out.
- (ii) The survey/building plan office was to be partitioned at Ksh.300,000. No such work was carried out.
- (iii) Installation of 14 solid core flush doors at Ksh.70,000 was also not done. Also, satin steel engaged union indicator bolts 40 pieces worth Ksh.60,000 were not installed.
- (iv) Window panes 200m at Ksh.300,000 were only installed partially near the chamber and in a few offices.
- (v) In the lavatory, flash valve 1 1/2" cobra make 22 pieces worth Ksh.550,000 were not installed. Also, flash valve 1" cobra make 15 pieces worth Ksh.270,000 were not installed. In addition, out of 15 pieces worth Kshs.105,000 only two were installed in the ladies toilet.
- (vi) One stainless steel urine trap of 6 feet long worth Ksh.100,000 was not installed.
- (vii) A lighting arrestor system worth Ksh.100,000 was indicated as installed even though there was one already. No report was provided to indicate it was defective .
- (viii) Roofing: though the BQ also provided for the partial roof repair and replacement, physical verification carried out during the audit did not reveal any new or newly repaired roof.

i) Renovation of office block – Kanoga Primary School

This was contract number MCN 07/2012 – 2013 at a value of Ksh.894,604 awarded to a contractor and was to run from 7 January 2013 to 21 February, 2013. The following anomalies were however noted:

- (i) The contractor was to supply 7 steel doors, only 4 were installed at Ksh.12,000 each, hence a loss of Ksh.36,000
- (ii) The contract provided for 4 core flush doors but only two were installed at a cost of Ksh.4,800. Records showed that Ksh.9,600 was incurred.
- (iii) 3-lever steel union door locks door worth Ksh.6,500 each were to be installed. Non was installed hence a loss of Ksh.19,500.
- (iv) Electrical works worth Ksh.75,000 were not done .
- (v) Completion certificate, testing and commissioning at Ksh.20,000 was provided in the contract and paid but by the time of audit in August 2013, the above activities had not been done despite the full payment having been done by 1 March, 2013.

The council did not get value for the money spent on this project.

ii) Dedan Kimathi Stadium – Completion of Toilet Block

The above contract was awarded vide contract no. MCN 18/2012 – 13 for a sum of Ksh.2,165,613 and was to commence on 7 January, 2013 to 6 February, 2013 and was awarded to a construction company. However physical inspection of the project on 6 August, 2013 revealed the following:

- (i) The project had been done almost to completion by another contractor under phase I. The store works, flooring, walling and roofing had all been done under phase I. The new contract was meant to address windows, doors, electrical works & plumbing. However the following were not done:
- (ii) Burglar proofing grills at Ksh.78,000 were not installed.
- (iii) Semi solid core flush doors at Ksh.5,500 for each door but only 6 out of 8 were installed occasioning loss of Ksh.11,000.
- (iv) Box culverts for rain water were not installed, yet Ksh.20,350 was paid for the same.
- (v) Union steel 3 lever door locks 5 pieces at Ksh.8,000 each were to be installed. No locks were installed, occasioning loss of Kshs.40,000.
- (vi) Only one Union mortise lock worth Kshs.5,000 out of 4 in the BQ was installed occasioning loss of Kshs.15,000.
- (vii) Electrical works costing Kshs.200,000 were not installed.
- (viii) Stainless urine rap 4 feet 1 piece at Kshs.80,000 was to be installed. However, the much cheaper ceramics tiles were installed without any compensation.
- (ix) 12 pieces of Manhole covers worth Kshs.192,000 were not installed.

The Council did not get value for the money paid for this project.

iii) Street Light Installation – Lucas Stage

This was contract number MCN 09/2012 – 13 valued at Kshs.373,350 and was awarded to a local contractor. The contractor was on 27 March, 2013 paid the full contract value of Kshs.373,350.00 vide cheque no. 7059.

The contract provided for installation and commissioning of five (5) street light poles complete with all installation. However, no work had been done by the time of inspection on 6 August, 2013, four months after payment had been done, occasioning loss of Ksh.373,350.

The Council paid for the work not done and therefore the payment was irregular

Recommendation

The County Government should recover the wasted amounts from the officers concerned.

4.9. Procurement of goods and services

i) Printing Services-Kshs.4,049,220

The Council raised LPO's and made payments in respect of printing of receipt books in January 2013 to a printing company. The following payments were made yet the Council knew it was to be dissolved by end of February 2013. The payee was Kalzmat Printing.

Chq No	Date	Amount – Kshs.	Details
32376	18/01/13	783,000	Printing application forms
32377	18/01/13	957,000	Printing hawkers tickets
32378	18/01/13	899,000	Printing promotion tickets
32379	18/01/13	928,000	Printing registration forms
32381	18/01/13	482,220	Printing of stickers
Total		4,049,220	

However stores records indicated no receipts were made in 2013. Further, the first four payment vouchers totaling Kshs.3,567,000 were not availed for audit verification. A review of the stores ledger for above receipt books also revealed that the old stocks could last the Council for several years hence there was no need of procurement of more receipt books. The Council therefore paid for services not rendered contrary to financial regulations.

The Council also paid a total of Ksh.5,848,934.00 to various firms during the period under review.

However, the details of how the firms were sourced to render services to the Council were not made available for audit review. Further, these payments were not supported. Consequently the authenticity of these payments could not be established.

Recommendations

The officers responsible for the above payment should be held accountable for any loss incurred. Further, the payment vouchers not availed for audit should be produced for audit review.

iii) Single sourcing of services

During the period under review, the Council purchased goods and services without following proper procurement procedures.

Payment voucher no. 1302 – 0246 of 27 February 2013 for Ksh.2,079,987.00 was paid to local trader vide cheque no. 000016 of 27 June 2013 for invoice number 155 of 21st Feb. 2013 and LSO no. 1302 – 0051 being payment for consultancy services of

Kamakwa Market LR. No. Tetu/Unjiru/639. However, the following observations were made:

- (i) The supplier was single sourced contrary to procurement regulations and procedures since no tendering or floating of quotations was done when sourcing for these services.
- (ii) The firm was to produce a survey report, however the report was not made available for audit verification.
- (iii) Further, this expenditure was not provided for in the council's 2012/2013 budget. The Council therefore may not have realized value for its money on this project.

Recommendations

The County Government should recover the money that was irregularly paid to the firm.

iv) Imprudent Procurement of Consultancy Services

Payments totalling Kshs.5,809,423 were made in respect to consultancy services rendered in the month of February 2013 despite the fact that the Council was to be dissolved in the same month.

It was observed that no single consultancy report was submitted as there was no time for the same as the Councils were being dissolved, raising questions as to whether any work was done.

The expenditure would therefore seem unnecessary and a waste of public funds.

Recommendation

Those responsible should be held to account for the unnecessary and wasteful expenditure.

DEFUNCT COUNTY COUNCIL OF NYERI

5.1. Hand Over Report

The defunct County Council was required by law to have prepared a handing over report, detailing the assets, liabilities and staff it was supposed to hand over to the incoming County Government. However, no such report was prepared and handed over to the County Government even after the Council was reminded of the same by the PS Ministry of Local Government vide letter reference No. MLG/1333/TY/52 dated 18 February 2013.

5.2. Motor Vehicle and Other Non- Current Assets

The defunct Council had not officially handed over a statement of assets and liabilities to the County Government of Nyeri. The value of the assets were not indicated on the statement of assets and Liabilities held by the County Government of Nyeri and no proper documentation of the total value of the assets as at the close of this period was made available. The position of motor vehicle and other non- current assets could not be ascertained.

Recommendation

The County Government should ensure all assets and liabilities belonging to the defunct Council are correctly identified, recorded and transferred to them.

5.3. Cash and Bank Balances

i) The bank balances

The defunct Council operated six (6) bank accounts before; during and after transition period and the total bank balances as at 8 March and 30 June, 2013 were as follows:

Bank	Account Number	Description	Pre Transition Period -Balance as at March 8, 2013	Balance as at June 30, 2013
KCB	1108627382	Savings Account		4,910,460.70
Family bank	O55000004952	Salary Account	6,171,524.94	4,881,810.55
Co-operative bank Kenya	O1120031955900	LATF Account	108,436,846.60	98,310,853.00
Co-operative bank Kenya	O1120031955901	County Rate Fund A/C	4,301,419.50	2,212,532.31
Co-operative bank Kenya	1150031955903	Call Account	10,000,000.00	10,000,000.00
KCB	1108495273	Main Account		
Total			128,909,791.04	120,315,656.56

The above balances excluded Kshs.20,000, 000 call account deposit.

ii) Reported cash and bank balances

The Council had reported cash and bank balances of Kshs.76,473,088.00 and investments in Fixed Deposit account and Call accounts of Kshs.30,000,000.00 held at

Co-operative Bank as at 31 December 2012 in its handing over report to Transition Authority.

It was however established that the actual cash and bank balances were Ksh.82,636,615.28 as per bank statements and investments in Fixed Deposit account and Call accounts of Kshs 30,000,000.00 as at 1 January 2013.

Existence of the Kshs.30,000,000 investments could not be confirmed in absence of bank confirmation certificate. In addition, there was no evidence of any transfer of the said investment's proceeds upon maturity to the respective Council accounts.

iii) Change of bank accounts mandates and closure of the accounts

The County Government retained the accounts initially held by the defunct County Council of Nyeri. There was undue delay noted in change of the accounts' mandate/signatories. The change of accounts mandate was made on 8th April, 2013 and new mandate given on 3 May, 2013.

It was observed that instructions to the banks to close all the bank accounts were made on 29 July, 2013, with instructions to transfer all the money held in the accounts to Nyeri County Revenue Collection Account No.1140760319 held at Kenya Commercial Bank.

iv) Inaccurate records of bank payments

The Council had not maintained accurate and up to date records of the bank payments. Several cheque payments were missing from the LAIFOMS cashbook that was made available for audit review yet the same cheques had been paid out by the bank. In addition, other cheques issued differed in amounts recorded in the cashbook and that paid out by the bank as detailed:

Cheque Number	Amount recorded	Amount on bank statement	Variance
19850	Nil	30,000.00	30,000.00
19835	700.00	2,800.00	2,100.00
19799	Nil	110,500.00	110,500.00
19914	50,000.00	80,000.00	30,000.00

These variances in transactions were not explained. Consequently, the propriety and the correctness of the above transactions could not be ascertained.

Recommendations

Payments done during this period should be investigated. In addition monthly bank reconciliation statements should be done and checked by a senior Country Government official.

5.4. Debtors balances

The Defunct Council had not officially handed over its assets and liabilities to the County Government of Nyeri. Further, no documentation as at the close of the reporting periods was made available. The position of debtors at the end of reporting periods, before, during and after transition could therefore not be ascertained.

5.5. Suppliers' Balances.

i). General suppliers' balances

The Defunct Council had not officially handed over its assets and liabilities to the County Government of Nyeri. No suppliers' records or ledger was availed for audit verification hence the position of creditors before, during and after transition could not be ascertained. However, the Council availed a list of nine (9) other creditors totaling to Ksh.2,237,393 as being the total creditors as at 30 June, 2013.

ii) Unremitted Statutory Debts – Ksh.29,120,400

The Council disclosed unremitted NSSF debt of Kshs.26,927,359 and Local authority Pension Trust debt of Kshs.2,193,041. However, no records were availed to support the balances.

Recommendations

The management of the County Government should record and confirm these creditors' balances before effecting any payment.

Further liabilities should be investigated and reconciled by the County Government Management.

5.6. Revenue

i) Revenue collections and banking

The defunct Council collected a total of Kshs.165,482, 851 between January and June 2013. However, Kshs.23,701, 366 was not banked as follows:

Period	Revenue collected	Amount banked	Under/over banking
Pre Transition Period	26, 552, 548	10, 228, 169	16, 324, 379
During Period	121, 911, 026	111,776,389	10, 134, 637
Post Transition Period	17, 019, 277	19, 776, 927	(2, 757, 650)
Total	165, 482, 851	141, 781, 485	23, 701, 366

ii) Revenue Comparisons

It was observed that revenue declined by approximately 11% for the period January to June 2013 compared to June 2012 as analyzed below:

Month	2012	2013	% Change
January	10,003,617	7,675,202	(23)
February	9,823,220	18,877,346	92
March	24,849,178	18,635,404	(25)
April	6,185,392	7,037,349	14
May	6,945,662	5,115,494	(26)
June	11,717,489	4,876,104	(58)
Total	69,524,558	62,216,899	(11)

It was further noted that LATF and Cess receipts of Kshs.124,183,421 and Kshs.5,019,241 received in December 2013 were not receipted or recorded in the cashbook until February 2013.

Recommendation

The revenue spent at source should be properly accounted for and refunded.

5.7. Local Authority Transfer Fund (LATF) Projects

i) Implementation of Kiawara Open Air Market Project

The Council signed an undated contract between themselves and a construction company for construction of Kiawara open air market at a cost of Kshs.10,360,272.62. The Council had paid Kshs.6,795,291 or 66% by December 2013. The following terms were stipulated in the contract among others:

- a) The first stage- payment of 30% after digging the trenches and laying foundations.
- b) The second stage- payment of 30% after laying slab, constructing stalls and erecting the canopy as per BOQ.

c) The third stage- payment of 30% after completing the ablution block, offices and stores and providing storage tanks and gutters for harnessing water from the roof of the canopy and any other remaining works as per BOQ.

d) 10% after defects liability period

Physical verification of the project revealed that about 20% of the works had been completed comprising of ablution block, offices, digging of trenches and laying foundations. No further information was made available on how the project was to be completed with only Kshs.3,564,981.62 unpaid. The laying of slab, constructing stalls and erecting the canopy had not been done.

Recommendation

The County Government should pursue the contractor and enforce compliance to the terms of the contract or recover the money.

5.8. Procurement of Goods and Services

i) Irregular subsistence allowance paid to councilors – Ksh.1,678,000.00

The former Councilors approved and paid themselves subsistence allowances while attending a HIV/Aids seminar from 6 to 8 January 2013 a few days before the Council dissolution. A total of Kshs.1,678,000.00 was paid vide cheques No. 19747 and No. 19750 for Kshs.1,132,000 and Kshs.546,000 respectively. The basis of the allowances was not substantiated.

ii) Donation to Thunguma Children Centre - Kshs.300, 000

The defunct Council paid Kshs.300,000.00 vide cheque No 19899 in respect of a donation to Thunguma Children Centre. However there was no acknowledgement of the receipt of the money. The propriety of the payment could therefore not be ascertained.

iii) Unaccounted for fuel, Kshs.770, 956

The defunct Council purchased fuel worth Kshs.770, 956 vide cheque No. 24426 for Kshs.342,956 and cheque No.19972 for Kshs.428,000.

However, it was noted that in some instances the Council vehicles were purported to have been fueled, yet scrutiny of the work ticket the vehicle was not in use on the specified day.

iv) Compensation for staff injury - Kshs.105,734

The defunct Council paid Kshs.105,734.00 vide cheque No. 2646 of 1/3/2013 to one of its officers as compensation for injury sustained on his left hand little finger while participating in KIMSCA games of August 2008.

It was noted that at the time, the Council officer was insured by AMACO. It was not clear why the Council irregularly paid the compensation instead of the raising an insurance claim.

v) Missing Payment Vouchers - kshs.6,151,454

The defunct Council did not make available for audit review various payment vouchers with an amount of Kshs.6,151,454 that were reflected in the LAIFORMS payment register for KCB main bank account number 110849527 as follows:.

Period	Amount Kshs.
Pre Transition Period	1, 454, 248
During Transition Period	500, 000
Post Transition Period	4, 197, 206
Total	6,151, 454

The expenditure could not be authenticated.

vi) Payment for consultancy services – Ksh.4,110,770.00

The Council paid Kshs.4,110,770.00 for procurement of various consultancy services. However, the resulting reports were not made available for audit verifications for the services detailed below.

- (i) Baseline survey on skills competency assessments Kshs.270,000.00
- (ii) Training on legal audit assessment Kshs.270,000.00
- (iii) Baseline survey on staff satisfaction Kshs.130,000.00
- (iv) Automation Baseline survey Kshs.225,000.00
- (v) Impact Assessment on public sensitization on garbage collection Kshs.100,000.00.
- (vi) Training Needs Assessment 1st quarter Kshs.190,500.00.
- (vii) Legal audit for Kshs.340,000.00 and Kshs.1,740,000.00 for assets valuation by local firms.

Under the circumstances it could not be ascertained whether the services were actually rendered to the Council.

vii) Purchase of ward sports equipment – Ksh.294,000.00

The defunct Council had purchased various ward sports equipment and office stationery worth Kshs.294,000.00. However, the goods were not entered in the stores ledger. In

addition no requisition notes from the user department of the items were made available for audit review.

Recommendations on procurement

- The County Government should investigate how these payments were made and make the necessary recoveries.
- Proper fuel recording system should be put in place that captures all fuel procured into fuel ledger and ensures that all drawings from it are duly authorized and accurately recorded.
- In depth investigation should be instituted to find out whether surveys were justified and whether the Council got value for money from the consultancies.
- Any eligible payment should be recovered from the officers concerned.
- The missing vouchers should be investigated and recovery made from the officers concerned.

DEFUNCT MUNICIPAL COUNCIL OF KARATINA

6.1. Hand Over Report

The Defunct Municipal Council of Karatina had not officially handed over its assets and liabilities to the County Government of Nyeri as at 27 March 2013. The value of the debtors and creditors were not indicated and no proper documentation of the breakdown of the balances as at the close of this period was made available. The position of receivables and Payables at the end of this period could not be ascertained.

Recommendation

The County Government should ensure all assets and liabilities for the defunct Council are identified, recorded and handed over to them.

6.2. Motor Vehicle and Other Non- Current Assets

The Defunct Municipal Council had not officially handed over a Statement of assets and liabilities to the County Government of Nyeri as at 28 February 2013. The value of the assets were not indicated on the statement of assets and Liabilities held by the County Government of Nyeri and no proper documentation of the total value of the assets as at 30 June 2013 was made available for our verification hence the position of motor vehicle and other non- current assets previously owned by the defunct Council could not be ascertained.

Recommendation

The County Government should ensure that there is an accurate identification and recording of motor vehicles as handed over to them.

6.3. Cash and Bank Balances

The defunct Local Authorities were required by the Transition Authority to freeze, close and then transfer all the funds held in the bank accounts initially operated by them to the County Revenue fund account by 28 February 2013. However, it was established that the Defunct Municipal Council of Karatina did not freeze, close and transfer all the funds in the said bank accounts as required. The banks were still operational even in July 2013. Ten (10) out of the eleven (11) bank accounts held and disclosed by the Defunct Municipal Council of Karatina as at 30 May 2013 had a total balance of Kshs.8,346,831.10 as at 30 June 2013.

The Council did not comply with the law on closure and transfer of bank accounts.

6.4. Debtors and suppliers balances

The Defunct Town Council had not officially handed over its assets and liabilities to the County Government of Nyeri as at 30 June 2013. The value of the debtors and creditors were not indicated and no proper documentation or the breakdown of the balances as at the close of this period was made available. The position of receivables and payables at the end of this period could therefore not be ascertained.

Recommendations

The County Government should ensure that all assets and liabilities of the defunct Council are identified, recorded and handed over as required.

6.5. Other Observations

(i) Unnecessary Expenditure on Tagging of Assets services – Ksh.150,000.00

The defunct Municipal Council of Karatina procured the services of identification, tagging of assets and preparation of a Fixed Asset Register at a contract price of Kshs. 150,000.00. It was however observed that the firm just came up with a mere list of assets without values and tagging was not physically done on the said assets. The Council had prepared a list of assets and liabilities for the Transition Authority stating what they actually owned and the value. There was therefore no need of contracting the services of a third party to do what it had already done.

Recommendation

This expenditure should be explained and those who authorized it be held liable.

The total revenue collections for the defunct Council were Kshs.14,420,211.00 during the transition period to March. This amount had not been transferred to the County's Revenue Fund as required.

In addition, no bank reconciliation statements had been prepared during this period and therefore the bank balances for all the accounts could not be confirmed.

Recommendation

Transactions during the period should be investigated and monthly bank reconciliation statements prepared.

(ii) Irregular Payment of Uniform Allowance in Arrears – Ksh.354,798.00

The defunct Municipal Council of Karatina made payments in respect of arrears amounting to Kshs.354,798.00. These payments were made as uniform allowance. However, the management did not explain or support this payment and it was therefore deemed irregular.

Recommendation

The matter should be investigated and the amount recovered from officers concerned.

iii. Irregular Direct Spending from Revenue Collections – Kshs.817, 421

During the period the Council directly spent from its revenue Kshs.817, 421 before banking. Further, no expenditure analysis was made available to show how the shortfall in banking was accounted for. This was against the Financial Regulations which require that all revenue collected should be banked intact.

(iv) Irregular engagement of casuals

The defunct Municipal Council of Karatina had a permanent staff establishment of Sixty Three (63) employees. The defunct Council had also engaged sixty eight casual at a total monthly wage of Kshs.561,450.00. It was however observed that that these casual employees had been engaged without a ministerial approval or authority from the County Government. The casuals had been engaged for long period of time, some for over 10 years, without absorbing them in contravention of the Employment Act 2007.

The engagement of casuals was therefore irregular and a breach of the Government Regulations.

Recommendation

The County Government should urgently conduct a head count and carry out elaborate staff rationalization.

7.0 Conclusion

The foregoing observations indicate that proper accounting and recording control systems both manual and computerized need to be put in place as this is a requirement of the Public Sector Accounting Standards Board as emphasized by section 194 of the Public Finance Management Act, 2012. Secondly budgetary controls should be improved to avoid disadvantaging developments. Thirdly procurement procedures as required by the Public Procurement and Disposal Act, 2005 should be followed.

I wish to thank the management of Nyeri County for their cooperation and assistance extended to my staff during the period of this important audit assignment. I hope same co-operation continues in future audit assignments.



Edward R .O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

19 February 2014