KENYA NATIONAL AUDIT OFFICE

SPECIAL AUDIT REPORT OF THE AUDITOR-GENERAL
ON THE
FINANCIAL OPERATIONS OF

NAIROBI CITY COUNTY

December 2013

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1.0 EXECUTIVE SUMMARY

1.1 Introduction

This report contains findings and other relevant details of the transition to devolved government audit conducted by the Office of the Auditor General on the transactions and handing over of assets and liabilities just before, during and after the creation of the Nairobi City County (NCC) Government.

1.2 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 Government. The audit sought to establish the level of preparedness of the NCC to receive and utilize devolved funds before, during and after transition. The terms of reference set for the audit included verification 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 and number of bank accounts maintained by the former Council;
- Current debtors and suppliers balances;
- Motor vehicles and office equipment;
- IPPD Payroll and establishment;
- Recurrent and development expenditure items;
- Procurement and procurement procedures;
- ICT, IFMIS and G-Pay System;
- Provide recommendations on current transition challenges, internal controls, accounting and regulatory developments in our reports.

1.3 KEY AUDIT FINDINGS

1.3.1 Failure to take Over by the County Government

The County Government of Nairobi had not officially taken over the assets and liabilities of the former City Council. Overall, the audit found that the NCC had 16 departments which were uncoordinated and operated as independent units. No handing over notes were prepared and business continued as usual and as a result; it has not been possible to conclusively confirm the accuracy of the assets and liabilities taken over from the former City Council of Nairobi (CCN). A senior management committee to take over the role of the Council during transition was not established as directed by the then Ministry of Local Government vide Circular No. MLG/1333/TY/52 of 18 February, 2013.

All departments of the defunct City Council should be asked to prepare detailed handing over notes on the assets and liabilities previously under their jurisdictions and arrangements made by the Transition Authority to have the assets and liabilities of the former CCN handed over to the NCC Government.

1.3.2 Cash and Bank Balances

The defunct CCN historically operated 40 bank accounts out of which sixteen (16) bank accounts were dormant, while twelve accounts had credit balances totalling Kshs.35,459,356.20. However, the County did not produce for audit all the cashbooks and bank reconciliation statements to confirm the accuracy of the cash and cash equivalents. The bank reconciliations statements and cashbooks should be updated and all the balances in the dormant and still active accounts disclosed and transferred to the County Government accounts.

1.3.3 Failure to Close Bank Accounts

The Ministry of Local Government had issued instructions vide Circular No.MLG/1333/TY/52 of 18th February 2013 requiring all defunct local authorities accounts to be closed and the existing funds transferred to the General Rate Fund Account and as soon as practicable, a Single Account to be opened at the Central Bank of Kenya. However the accounts were not closed as required and business continued as usual and instead four (4) new accounts were opened. Some old accounts were still operational as at the conclusion of the audit on 30 September 2013 in total disregard of the Ministry and TA directives. All defunct CCN accounts should be closed, balances disclosed and transferred to the County Government Accounts.

1.3.4 Failure by CCN Bankers to confirm Cash and Bank Balances

It was not possible to confirm whether the forty (40) bank accounts disclosed by the former City Council were the only accounts operated before the transition period as the CCN bankers mainly Equity Bank, Cooperative Bank of Kenya, Kenya Commercial Bank and the National Bank of Kenya did not respond to our requests for disclosure of all accounts previously held and also requiring them to confirm the balances in each account. The number of bank accounts varied from different lists presented for audit with some lists showing 40, 41 and others 42. The CCN bankers should be compelled to disclose all accounts held in their banks by the defunct CCN and also confirm the balances as at 31 December 2012, 28 February 2013 and 30 June 2013.

1.3.5 Transition Authority Expenditure – County Executive and County Assembly

The County received Kshs.489,479,844.00 from the Exchequer being the allocation for the period March to June 2013. In addition, the County also received Kshs.61,592,200.00 from the Transition Authority. The funds were meant to help setup the County Government, and

ensure that services being delivered at the County Level were not disrupted by facilitating operations, personnel emoluments, operations and maintenance.

However, audit of expenditure records in September 2013 revealed that a total of Kshs.470,386,525.85 had been spent but the payment vouchers associated with these expenditures were not properly approved or adequately supported and were basically partly processed. It was observed that the supporting documents were filed separately making it difficult to verify. The expenditures were mainly on imprests issued to staff to facilitate induction workshops; salaries and allowances for the Executive and County Assembly members and payment of pending bills. The County Executive and the Clerk County Assembly should ensure full accountability of the expenditure totalling to Kshs.470,386,525.85.

1.3.6 Under Banking of Revenue Collected

(i) Revenue records made available for audit revealed that during the period 1 January 2013 to 30 June 2013, a total of Kshs. 5,511,732,231.00 was collected from the various sources of revenue but only Kshs.5,258,849,088.00 was banked resulting to under-banking of Kshs.252,883,143.00.

(ii) The audit also revealed that out of the total under-banked revenue, Kshs.29,021,813.00 was subsequently issued as IOU's to various officers while the balance of Kshs.223,861,330.00 represented cheques en-cashed by County staff for various miscellaneous activities such as purchase of goods and services and other numerous consumable items.

(iii)It was also noted that during the period under review Cess Income totalling Kshs.60,725,305.00 was collected in various divisions but only Kshs.57,889,995.00 was receipted at the cash office and banked resulting in a difference of Kshs.2,835,310.00 not accounted for and banked.

The County management should streamline the collection and accountability of revenue in accordance with the existing Financial Regulations and prudent management practices.

1.3.7 Land Rates Revenue

The defunct CCN had not started the process of surveying and adjudicating land so as to collect rates on numerous parcels of land or sharing of information with other government agencies. The current valuation roll was done longtime ago and denies the council potential to increase revenue collection. The County management should update its land rates records, set targets for revenue collection and streamline the ICT systems including the use of Mpesa.

1.3.8 Creditors

The County inherited huge creditors' balances which were not properly supported by schedules and control ledgers. Prior to the dissolution of the defunct CCN, the Local Authority was indebted to the tune of Kshs.15,329,157,303.00 as at 28 February, 2013 before transition to devolved government on 4 March 2013. This figure was exclusive of contingent liabilities which at the time stood at Kshs.28,645,991,991.00.

A review of the position as at 30 June 2013 showed that the creditors stood at Kshs.14,941,880,038.00 while contingent liabilities stood at Kshs.27,224,574,236.00 making a total probable debt of Kshs.42,166,454,275.00. The Governor has since acted on some of our recommendations and appointed a Pending Bills Verification Task Force to finalize the issue of pending accounts. The task force should prepare a policy for future handling of the pending bills.

1.3.9 Debtors

Debtors stood at Kshs.18,389,976,000.00 as at 28 February 2013 and Kshs.14,639,478,000.00 as at 30 June 2013 indicating a decrease of Kshs.3,750,498,000.00 during the transition period. However, it was not possible to confirm the correctness of the decrease or accuracy of the debtors' balances as debtors control ledger and schedules were not provided for audit review.

According to LAIFOMS the outstanding rates schedules reflected balances of Kshs.56,007,844,418.05 as at 28 February 2013 and Kshs.62,182,535,633.19 as at 30 June 2013 which differed with the balances reflected in the draft Financial Statements of Kshs.15,891,311,000.00 and Kshs.12,109,338,000.00 respectively. The differences of Kshs.40,116,533,418.05 and Kshs.50,073,197,633.19 could not be reconciled.

A review of the rates uncollected as at 30 September 2013 showed that the balance continued to accumulate and stood at Kshs.68,324,250,585.02. The debtors control ledgers should be prepared/updated and properly reconciled to address the variations noted and a debtors' collection policy be developed and implemented to include recovery measures such as legal action against the defaulters.

1.3.10 Expenditures Captured in LAIFOMS

Expenditures totalling Kshs.11,019,322,188.00 were processed through the LAIFOMS Expenditure Module, during the period between 1st July 2012 to 30 June 2013 out of which Kshs.3,838,049,415.00 was indicated as paid with Kshs.1,337,144,987.00 processed from the old accounts which were supposed to have been closed while the balance of Kshs.7,181,272,773.00 was carried over to 2013/14.

Analytical review of the LAIFOMS payment vouchers sequence showed that, the NCC processed a total of 27,509 transactions. However, examination of the payment register showed that only 24,389 transactions had been captured leaving a total of 3,420 transactions undisclosed. Included in the undisclosed analyses of 3,420 transactions are 1,227 payment vouchers pertaining to the period between January and June 2013. Consequently, expenditure may be understated to the extent of the missing payment vouchers. All the transactions in the LAIFOMS expenditure modules should be investigated and a proper reconciliation prepared.

1.3.11 Outstanding Imprests

Imprests amounting to Kshs.235,903,246.00 were advanced to County officers for various activities including procurement of goods and services. However, the officers had not surrendered or accounted for the imprests as at 30 June 2013 while a number of these officers received additional imprests before they could fully account for earlier imprests contrary to the financial regulations governing the issuance and surrender of imprests.

The County management should recover all outstanding imprests; ensure that no additional imprest is issued to an officer, before the previous imprest is fully accounted for; and ensure that at all times regulations regarding issuance of imprests are fully adhered to and that imprests are not advanced as soft loans.

1.3.12 Unaccounted for Cash Bails

Cash bails totalling Kshs.11,463,800.00 were collected from various persons arrested and arraigned in the City Court pending determination of their cases. Under normal circumstances, the amounts collected ought to be put in a deposit account awaiting the outcome of the court cases but were instead treated as revenue and subsequently utilized. All cash bails collected should be deposited intact in a deposit account pending determination of the respective cases and all cash bails appropriated as revenue should be refunded and placed in a deposit account to enable refund as appropriate.

1.3.13 Motor Vehicles

a) The NCC inherited a total of 309 vehicles with an estimated value of Kshs.58,633,000.00 out of which 263 vehicles or 85% were verified leaving a balance of 45 vehicles not produced for physical verification. The vehicles were not valued and it's not clear how the insurance total premium of Kshs.13,962,471.44 was arrived at. Forty five (45) vehicles were under unexplained circumstances insured under 'individuals' private policies.

b) Twelve (12) vehicles were acquired under asset financing and co-owned by the Co-operative Bank of Kenya and the CCN but no details were provided. Some of the vehicles acquired under this arrangement included garbage collection trucks which were among sixty (60) other vehicles found grounded at the County Garage. Several of these grounded

vehicles had been neglected at the Garage for a long period of time thereby reducing their resale value significantly.

c) Eight (8) more vehicles were said to have been donated by various donors to the defunct CCN for unspecified projects but were also not produced for physical verification. Another ten (10) motor vehicles were said to have been disposed through auction but no details were provided. Although qualified and experienced transport and logistics managers existed at the transport department and at the garage, they were not effectively utilized and were usually idle.

The County management should develop a policy on motor vehicles fleet management which should include issues on ownership, valuation, insurance cover, records and disposal among other matters.

1.3.14 Failure to maintain a proper Fixed Assets Register

According to the fixed assets schedule of 28 February 2013 prepared by the defunct City Council of Nairobi (CCN), non-current assets stood at Kshs.8,427,040,000.00. However, the County Government had not opened a proper Fixed Assets Register to facilitate ascertainment of the non-current assets values, actual existence and ownership. No valuation had been done to support the figures in the schedules availed for audit. The County Management should ensure proper records and values of all non-current assets are kept and properly maintained.

1.3.15 County Land

(i) **Un-surveyed Land**

The defunct CNN did not maintain a proper fixed assets register. The list provided for audit did not have any values for the assets handed over to the County Government. Most of the land/plots inherited from the former CCN remained un-surveyed with no land reference numbers (L.R numbers) making it attractive to land speculators.

(ii) **Allocation of County Land to Private Developers**

Prior to the transition period, various parcels of land belonging to the County were irregularly allocated to private developers. Some of the private developers have since constructed permanent structures while others have demolished properties previously owned by the defunct Council. It was not clear how the private developers were identified for allocation while some developers benefitted from multiple allocations and leases.

(iii) **Nanyuki Road Stores and Depot**

It was in particular noted that Nanyuki Road Stores and depot lost materials estimated at Kshs.50 million stored in the demarcated land. Also included in the fenced off area, was a caterpillar plant estimated to be worth Kshs.40 million and two City Council Offices which have since been converted into private offices by the beneficiary firms. It was further noted that due to this interference numerous breakages and theft have been reported at the Depot resulting to loss of un-quantified council property.

(iv) **Construction of Perimeter Walls**

During the period immediately before and during the transition period perimeter walls were constructed on various Council properties supposedly to protect the land from encroachment. However, the noble idea was later converted as an opportunity to isolate parcels of land for private use especially so in city schools, council offices/stores and health centers, since the perimeter walls were constructed inside the beacons alienating the targeted parcels of land.

In order to protect the City County land, all un-surveyed land should be surveyed and titles obtained and any allocated illegally should be repossessed by the City County.

1.3.16 Equity Bank Loan

(i) On 30 March 2011 the defunct City Council obtained a Loan of Kshs. 5 billion from Equity Bank at a transaction fee of Kshs.50 million. The loan was meant to cater for payment of statutory debts which were attracting huge interest charges and was repayable in sixty (60) months in installments of Kshs.333,333,334.00 payable every quarter at an interest rate of 10% per month.

(ii) However, the entire loan was not utilized for the intended purpose but was instead used to pay various suppliers and legal pending bills on advice of forensic auditors who were engaged as consultants to verify and approve the bills. Incidentally they were also co-opted as signatory to the Equity Bank Account. The failure to clear the statutory creditors has continued to weigh heavily on the financial position of the County both in servicing the loan and also the escalating penalties which had accumulated to Kshs.5,269,356,533.00 by 30 June 2013.

(iii) The loan had attracted interest totalling Kshs.1,657,235,538.20 as at 30 June 2013, out of which Kshs.1,647,415,935.70 had been paid leaving a balance of Kshs.9,819,602.50. Out of Kshs.5 billion loaned, Kshs.2,334,000,004.00 had been repaid leaving a principal loan balance of Kshs.2,666,466,838.00 as at 30 June 2013.

The County management should ensure that loans are properly negotiated and applied for the intended purposes. The terms and conditions of the Equity Bank Loan should be

adhered; to ensure full settlement of the loan in order to avoid additional interest and penalties.

1.3.17 Cash Purchases

During the period under review a total of Kshs.487,037,267.00 was spent on direct purchase of goods and services through IOU's, imprests and exchange of cheques issued to officers for cash in total disregard of the provisions of Public Procurement and Disposal Act, 2005. The County management should ensure compliance with the law on procurement and minimise the use cash transactions provide in PPOA Circular No.6/2010 of 18 June 2010 which requires the use of Framework Contracts covering most frequently required items running for one or more years thus avoiding numerous Requests for Quotations.

1.3.18 Procurement of Goods and Services

According to the LAIFOMS Expenditure Module LPOs/LSOs issued as at 30 June 2013 for procurement of goods and services amounted to Kshs.1,553,006,041.00 of which Kshs.1,193,519,357.00 is shown as having been paid leaving a balance of Kshs.359,489,684.00 pending. Further, it was noted that LPOs/LSOs valued at Kshs.149,607,588.00 processed through the LAIFOMS system were instead cancelled before being issued to the suppliers. The County management should establish the reasons for cancellation of LPOs/LSOs which had already been processed and committed and ensure that in future proper validation of LPO/LSOs is carried out before processing and commitment.

1.3.18.1 Medical Supplies

During the period 1st July 2012 to 30th June 2013 a total of Kshs.150,252,800.00 was spent on medical supplies out of which Kshs.29,546,800.00 was paid before the transition period and Kshs.94,588,100.00 was settled during the transition while Kshs.26,117,900.00 remained outstanding as at 30 June 2013.

However, the audit revealed that not all the medical supplies issued from the Central Medical Stores were received at the intended health centers due to alteration of the original Stores Issue Vouchers (SIVs) at the medical stores. A sample taken showed that medical supplies valued at Kshs.3,212,164.00 could not be accounted for. It was also noted that there was a lot of resistance in the deployment of qualified procurement personnel at the Central Medical Stores which made verification almost impossible. The County management should ensure that qualified procurement personnel are recruited and deployed at the central medical stores to enable maintenance of proper stores records and those responsible for falsification of medical supplies records should be investigated and prosecuted as appropriate.

1.3.18.2 Garbage Collection

(i) During the period 1st July 2012 to 30th June 2013 a total of Kshs.337,218,597.00 was paid to private garbage collectors out of which Kshs.154,590,643.00 was paid before the transition period and Kshs.111,296,262.00 was settled during the transition while Kshs.71,331,692.00 was outstanding as at 30 June 2013.

(ii) It was however observed that Kshs.166,225,352.00 was paid to various firms which were not in the prequalified list. Further, audit inspection at Dandora Dump Site revealed that some lorries did multiple dumping within a few minutes e.g. at ten minutes interval making it doubtful whether they had actually left the site.

The County management should develop a policy on garbage collection to guide the engagement and performance of garbage collectors. In addition, the County management should consider the option of repairing the garbage trucks lying at their garage depot, some of which may require minimal resources.

1.3.18.3 Roads Maintenance

(i) During the period 1st July 2012 to 30th June 2013 a total of Kshs.166,797,686.00 was expended towards roads maintenance out of which Kshs.97,302,366.00 was paid before the transition period and Kshs.45,172,866.00 was settled during the transition while Kshs.24,322,454.00 was outstanding as at 30 June 2013.

(ii) Physical verification on sampled roads revealed that most of the roads rehabilitated had gone back to their dilapidated state indicating shoddy or poor supervision of the works. The contractors and city engineers attributed the poor state of the roads to weather and passage of time between the repairs and time of the audit. There was no evidence that the contractors made good any defects during the defect liability period and before release of retention dues.

The County management should ensure due diligence is carried out on all road contractors and also ensure compliance with clearly defined terms and conditions of roads maintenance contracts such as payment of final certificates after the roads maintained/rehabilitated are inspected and commissioned. The contractors should also be required to make good any defects before retention monies are released.

1.3.18.4 Lighting Masts

During the period 1st July 2012 to 30th June 2013 a total of Kshs. 96,645,727.00 was expended towards erecting lighting masts out of which Kshs. 37,803,157.00 was paid before the transition period and Kshs.52,108,813.00 was settled during the transition while Kshs.6,733,757.00 was outstanding as at 30 June 2013. Although the masts were physically verified, a number of them were not working as intended. It was not clear why the payments

were made before testing and commissioning of the masts. Final payments should only be made after the lighting masts are tested and commissioned. The contractors should also be required to make good any defect during defect liability period.

1.3.18.5 Cleaning Materials

During the period 1st July 2012 to 30th June 2013 a total of Kshs.86,294,600.00 was applied to the purchase of cleaning materials by the Environment Department out of which Kshs.36,315,600.00 was paid before the transition period and Kshs.37,643,500.00 was settled during the transition while Kshs.12,335,500.00 was outstanding as at 30 June 2013.The bulk of these items were consumables which could however not be verified poor maintenance of stores and distribution records hence the optimum consumption rates could not be established. The County management should ensure that qualified procurement officers are deployed to maintain and updated stores records clearly defining the consumption rate levels to help monitor usage of goods of this nature.

1.3.19 Legal Payments

(i) Records available showed that the outstanding litigation claims amounted to Kshs.1,214,385,872.85 as at 30 June 2013. During the period 1st July 2012 to 30th June 2013 a total of Kshs.232,060,186.00 was spent on litigations out of which Kshs.113,838,492.00 was paid before the transition period and Kshs.86,750,061.00 was settled during the transition while Kshs.31,471,633.00 was outstanding as at 30 June 2013.

(ii) Records maintained by the legal department indicated that the County inherited about 1,800 legal cases from the former CCN some of which have been outstanding for over 10 years and are likely to cost the City County billions of shillings. Some of the cases were questionable and one case in point is highlighted below:

One lawyer who at the time did not possess a practicing certificate was claiming a decretal amount of Kshs.3,151,700,000.00 on behalf of his client as claims for loss of property purportedly for construction of a four star hotel. It later emerged that the proposed construction was on a City Primary School Playground. The CCN lawyer claimed Kshs.68,876,169.00 out of which Kshs.10,000,000.00 was paid despite withdrawal of the case on technicalities of representation. No efforts appear to have been made to recover the amount irregularly paid.

The Governor NCC has implemented some of our recommendations and appointed a task force to scrutinize all the litigation claims paid and pending bills. The task force should advise on ways of monitoring legal claims to ensure that only those claims certified as payable are actually paid by the City County management. Further, all County staff should be forewarned to ensure they operate within the law to reduce opportunities for litigation, collusion and phantom claims.

1.3.20 Information Communication Technology (ICT)

1.3.20.1 IT Control Environment

The City County has not yet developed or implemented key ICT policy documents like the Business Continuity Policies (BCP) and Disaster Recovery Plans (DRP).There was no register in place for recording officers who gained access to the server room. The County's server room did not have proper environmental controls for fire detection and suppression; and humidity and temperature control systems.

The County management should develop and institute:

- Key ICT systems, policy documents, procedures and controls that will ensure proper management of IT operations development should be fast tracked and approved.
- The ICT Department, as a strategic resource, should be adequately staffed and roles clearly defined for effective management of IT operations of the County.
- There should be a register or a biometric reader in place where one's credentials are captured to monitor access of officers to the server room.

1.3.20.2 Stand Alone Systems

The County had in place the following stand-alone systems: -

- Mortuary Management System
- Ad Manager System
- E-Construction System
- Ad Hoc Rates Management System
- Medical Certificates System
- Parking Management System
- Electronic Bill Presentment and Payment Platform (E-Payment)

The County should ensure that all Stand Alone Systems and others in use are integrated to facilitate efficiency of its operations.

1.3.20.3 ICT Staff and Hardware

The IT Department did not have in place an ICT Asset Register to record all IT inventory inherited from the defunct CCN and those acquired by the new NCC showing their condition and locality.

The procurement of ICT equipment in the County was not centralized with each department, sections and divisions procuring their own ICT equipment which resulted in the County not obtaining value for money and economies of scale from their acquisition.

The County management should ensure the existence of a complete ICT Assets Register which is regularly updated indicating the value, location and condition of each equipment. All procurements of ICT equipment should be procured in accordance with procurement plans approved by the County management.

1.3.20.4 Integrated Payroll and Personnel Database (IPPD)

The County had implemented IPPD system and the payroll was run from May 2013. However, it was noted that the data migrated into IPPD had integrity issues as follows: -

No. of Officers	Issue of Reference
47	Bank accounts were being shared by more than one officer.
2	Salaries' were irregularly increased.
45	Earned leave allowance twice during the same financial year.
8	Employment status changed from retired/suspended to active.
24	Employed into permanent and pensionable when below eighteen (18) years.
11	Hired before birth.

Investigations should be carried and action taken on the identified employees and the senior officials responsible. The County should also carry out data cleansing and audit the human resource data to ensure the integrity of the payroll.

1.3.20.5 Network connectivity

There was a network diagram which detailed the network topology in place at the County Headquarters which was however not sufficient since the other sixteen (16) Sub-County offices were not networked. The County had in place the Government Common Core Network (GCCN), a fiber based network that linked the entire country but which the National Treasury had not configured to create a secure and private connection. The County should ensure that all its Sub-County Offices are inter-connected to the head office to ensure efficient monitoring and integration of all transactions.

1.3.20.6 IFMIS

IFMIS and G-Pay had been installed and during the transition period, County expenditure totalling to Kshs.300,493,126.10 was made out of the Kshs.489,479,844.00 received from the exchequer. However, significant delays were noted during the transaction cycle arising from downtime of IFMIS servers thereby affecting their efficiency and necessitating the use of Orange Modems. Treasury should configure fiber connectivity in a Virtual Private Network (VPN) to create a more secure and reliable connection.

1.3.20.7 LAIFOMS

(i) During the transitional period, an expenditure of Kshs.5,690,004,607.00 was processed through LAIFOMS with Kshs.2,278,797,048.00 relating to the period between 6 May 2013 and 30 June 2013 which should have been processed through IFMIS.

(ii) Further the LAIFOMS Expenditure Module was supposed to have been disabled from July 1, 2013 since the budget was not prepared through the system but payments amounting to Kshs.692,815,369.00 were made through the system after this date in complete disregard of Treasury directives. Users were further not posting the banking slips promptly to ensure that all revenue collected was banked intact.

The County management should take control of the management of LAIFOMS Revenue Module previously installed in the defunct Local Authority to ensure that revenue collection is properly accounted for and the Ministry of Devolution and Planning should ensure that the Counties receive adequate LAIFOMS (revenue module) support and maintenance.

1.3.20.8 Records Management

Audit visits to various County offices revealed that records are not properly preserved and maintained especially in the valuation department where maps, deed plans, and other historical property records were kept. In the accounts department, paid payment vouchers were not centralized in the accounts departments making tracing and verification very difficult and time consuming. All accountable documents should be properly preserved and digitization should prioritised.

1.4 CONCLUSION

The foregoing observations clearly indicate that the process of taking over of assets and liabilities, including staff of the former Council was not properly handled due to apparent lack of leadership by officials of Transition Authority who had the responsibility to ensure a smooth and seamless transition process. The County Government should however ensure full control of functions, including revenue collection, recording and proper accounting for the same while awaiting guidance from the National Treasury based on the accounting and reporting systems to be developed by the Public Sector Accounting Standards Board in accordance with Section 194 of the Public Finance Management Act 2012.

Detailed audit findings are contained in the detailed audit report.

Edward R.O. Ouko, CBS
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Nairobi

19 December 2013

2 DETAILED AUDIT REPORT

2.1 Introduction

This report contains findings and other relevant details of the transition to devolved government audit conducted by the Office of the Auditor General on the transactions and handing over of assets and liabilities just before, during and after the creation of the NCC Government.

2.2 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 sought to establish the level of preparedness of the NCC to receive and utilize devolved funds before, during and after transition. The specific objectives of the audit were to: -

- Confirm the number of bank accounts maintained by the former Council.
- Confirm existence of proper accountability of cash and bank balances before, during and after transition to the County Government.
- Confirm that revenue and expenditure were recorded and properly accounted for before, during and after the transaction period.
- Confirm that operational debtors and creditors were accurately recorded and transferred from the defunct local authority to County Government.
- Establish that assets taken over by the County Government were 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.

3 KEY AUDIT FINDINGS

3.1 Handing Over to the County Government

The County Government of Nairobi had not officially taken over the assets and liabilities of the former CCN as at the time of audit conclusion on 13 September, 2013, contrary to instructions issued by the Ministry of Local Government vide Circular No. MLG/1333/TY/52 of 18 February, 2013. Overall, the audit found that the NCC was organized into 16 departments which were uncoordinated and operated as totally independent units.

No handing over notes were prepared and business continued as usual and as a result; it was not possible to conclusively confirm the accuracy of the assets and liabilities taken over from the former CCN. A senior management committee to take over the role of the council during transition was not established as directed by the then Ministry of Local Government.

All departments of the defunct City Council should be asked to prepare detailed handing over notes on the assets and liabilities previously under their jurisdictions.

3.2 Cash and Bank Balances

- A list provided by the treasurer's department indicated that the defunct CCN historically operated 40 bank accounts. However, it was not possible to confirm whether these were the only bank accounts operated by the former City Council before the transition period as the CCN bankers mainly Equity Bank, Cooperative Bank of Kenya, Kenya Commercial Bank and the National Bank of Kenya did not respond to our request for disclosure of all accounts previously held and for confirmation of the bank balances as can be seen in the circularized letters in **Appendix 'I'.**

- During the transition period the cash and cash equivalents increased by Kshs.556,130,000.00 from Kshs.524,077,000.00 as at 28 February, 2013 to Kshs.1,080,207,000.00 as at 30 June, 2013. However, the County did not produce for audit the Cashbooks and Bank reconciliation statements to confirm the accuracy of the cash and cash equivalents.

- The accounts were not closed as directed through Ministry of Local Government Circular Ref: MLG/1328/A/(3) dated 7th March 2013 which required the accounts to be closed and all revenue collected to be banked in the General Rates Fund Account and as soon as practicable, a Single Account was to be opened at the Central Bank of Kenya. Some accounts were still operational as at the conclusion of the audit as at 30 September 2013 in total disregard of the requirements of the Ministry and TA directives.

- Out of the forty bank accounts disclosed, sixteen (16) bank accounts were indicated as being dormant while balances in four (4) accounts were not indicated. The twelve remaining accounts had credit balances totalling Kshs.35,459,356.20 as at 31 August 2012. The balances could not be confirmed due to the fact that bank reconciliations were in arrears and as earlier stated, the banks did not respond to our request for confirmation of accounts maintained and their balances.

Bank reconciliations statements and cashbooks should be updated and all the balances in the former accounts disclosed and transferred to the County government accounts. The County bankers should also be compelled to disclose all the account held by the defunct CCN and the balances as at 28 February 2013.

3.3 Revenue Collection, Banking and Maintenance of Records

There were persistent problems in accounting for revenue. Revenue collected was not banked intact as required by the County Governments Public Finance Management Transition Act, 2013 Sec.9. Revenue records made available for audit revealed that during the period 1 January 2013 to 30 June 2013, a total of Kshs.5,511,732,231.00 was collected from the various sources of revenue but only Kshs.5,258,849,088.00 was banked resulting to under-banking of Kshs.252,883,143.00 as shown in **Appendix 'II'.**

Further analysis of revenue revealed that part of the unbanked revenue totalling to Kshs.223,861,330.00 was issued as cheques to various County employees and later en-cashed for various direct expenditures while the balance of Kshs.29,021,813.00 was irregularly issued as IOU's to various officers.

Revenue records made available from the divisions indicated that during the period under review, Cess revenue totalling Kshs.60,725,305.00 was collected in various divisions out of which only Kshs.57,889,995.00 was received and receipted at cash office and banked. The resultant difference of Kshs.2,835,310.00 was not explained or accounted for as shown in **Appendix 'III'.**

The County management should streamline the collection and accountability of revenue in accordance with the existing financial regulations and prudent management practices. Appropriate action should also be taken on the officers who failed to strictly adhere to the financial regulations and procedures.

3.4 Cash Bails treated as Revenue

Cash bails totalling Kshs.11,463,800.00 were collected from various people arrested and arraigned in the City Court pending determination of their cases as shown in **Appendix 'IV'**. However, these funds were not deposited and held in a trust account pending the outcome of the respective court cases as required but was instead treated as revenue and utilized. The cash bails were therefore not available for refund as and when required thus exposing the City County to further litigation. All cash bails collected should be promptly deposited intact in a deposit account pending determination of the respective cases and all cash bails appropriated as revenue should be paid back and placed in a deposit account to enable refund as appropriate.

3.5 Outstanding Imprests

Examination of imprests records revealed that imprests totalling to Kshs.235,903,246.00 were advanced to various County officers for various activities which included direct procurement of goods and services. However, the officers had not surrendered or otherwise accounted for the imprests as at 30 June 2013 as detailed in **Appendix 'V.'**

It was further observed that a number of these officers were issued with additional imprests before they had fully accounted for earlier imprests contrary to the regulations governing the issuance and surrender of imprests as detailed in **Appendix 'V' (a).**

Records available indicate that that the County was mainly using imprests as a mode of procurement of goods and services without adhering to the thresholds set in the Public Procurement and Disposal Act, 2005 as detailed in **Appendix 'V' (b).**

The County management should recover all overdue outstanding imprests; ensure that no additional imprest is issued to an officer, before the previous imprest is fully accounted for; and ensure that at all times regulations regarding issuance of imprests are fully adhered to and that imprests are not advanced as soft loans.

3.6 Debtors

The County financial records reflect Kshs.18,389,976,000.00 as at 28 February 2013 and Kshs.14,639,478,000.00 against debtors as at 30 June 2013 indicating a decrease of Kshs.3,750,498,000.00 during the transition period as tabulated below:-

Debtors/Receivables	Value (Kshs) as at		Movemen
	28 Feb. 2013	30 June,2013	
Residential	109,764,000.00	43,800,000.00	-65,964,000.0(
Market rents	41,651,000.00	41,651,000.00	
Rates	15,891,311,000.00	12,109,338,000.00	-3,781,973,000.0(
Sundry debtors	151,564,000.00	156,941,000.00	5,377,000.0(
Licenses	1,323,987,000.00	961,681,000.00	-362,306,000.0(
Pumwani maternity	76,764,000.00	10,675,000.00	-66,089,000.0(
Advertisement	-	13,604,000.00	13,604,000.0(
Others	794,935,000.00	1,301,788,000.00	506,853,000.0(
Total	**18,389,976,000.00**	**14,639,478,000.00**	**-3,750,498,000.0(**

3.6.1 Outstanding Rates

Rates schedules extracted from the LAIFOMS as at 28 February 2013 and 30 June 2013 reflected balances of Kshs.56,007,844,418.05 and Kshs.62,182,535,633.19 respectively. The difference of Kshs.40,116,533,418.05 and Kshs.50,073,197,633.19 respectively from

that in the draft Financial Statements of Kshs.15,891,311,000.00 and Kshs.12,109,338,000.00 could not be reconciled.

A review of the rates uncollected as at 30 September 2013 showed that the balances continued to accumulate and stood at Kshs.68,324,250,585.02 as summarized below: -

Roll	No.	USV	Annual Rates	Total Arrears	Acc Penalty	Current Balance
Null	**33**	**44,945,400.00**	**6,531,440.00**	**412,626,058.00**	**502,265,921.00**	**634,178,905.00**
Public	20	14,271,500.00	2,395,215.00	647,033,414.00	729,530,458.00	775,807,205.20
Private	**125,671**	**18,021,905,795.02**	**3,269,571,535.75**	**16,136,324,821.77**	**60,838,477,288.91**	**66,914,264,474.82**
Total	125,724	18,081,122,695.02	3,278,498,190.75	17,195,984,293.77	62,070,273,667.91	68,324,250,585.02

From the above tabulation the USV appears highly understated thereby denying the County the real user value for properties. Certainly the 125,724 ratable properties values cannot be valued at Kshs.18,081,122,695.00. A detailed schedule of about 1,600 pages showing the rates defaulters is available in soft copy.

Debtors control ledgers should be prepared/updated and properly reconciled and a debtor's collection policy should be developed and implemented to include recovery measures such as legal action against defaulters. A new valuation roll should be prepared and leased land and other properties revalued to ensure proper value/lease/rent are levied.

3.7 Creditors

Records made available indicated that Creditors' balances increased by Kshs.1,447,143,000.00 from Kshs.9,622,540,000.00 as at 28 February, 2013 to Kshs.11,069,683,000.00 as at 30 June, 2013 as tabulated below: -

Creditors & Accruals	Value (Kshs.) as at		Movement
	28 Feb. 2013	**30 June, 2013**	
Suppliers - goods/services	2,095,520,000.00	1,599,942,000.00	(495,578,000.00)
Staff Allowances	**529,961,000.00**	**85,884,000.00**	**(444,077,000.00)**
Statutory deductions	4,667,729,000.00	5,269,357,000.00	601,628,000.00
Legal Creditors	**1,190,576,000.00**	**1,214,386,000.00**	**23,810,000.00**
CBA arrears	1,138,754,000.00	2,900,114,000.00	1,761,360,000.00
Total	**9,622,540,000.00**	**11,069,683,000.00**	**1,447,143,000.00**

A review of the position as at 30 June 2013 showed that the creditors stood at Kshs.14,941,880,038.00 while contingent liabilities stood at Kshs.27,224,574,236.00 making a total probable debt of Kshs.42,166,454,275.00 as analysed in **Appendix 'VI'**.

3.7.1 Suppliers of Goods and Services

Audit review of the list provided of suppliers of goods and services as at 28 February, 2013 and 30 June, 2013 reflected balances of Kshs.918,832,853.82 and Kshs.856,929,362.00 respectively, thereby differing with the respective Financial Statement balances of Kshs.2,095,520,000.00 and Kshs.1,599,942,000.00. The material variation of Kshs.1,176,687,146.18 and Kshs.743,012,638.00 could not be explained. Relevant records including delivery notes, invoices and demand notes from the listed suppliers to support their claims or the chargeable accounts were also not availed for audit review. Further, the schedule provided had a different figure of Kshs.680,767,890.00 as detailed in **Appendix 'VI'(a).**

3.7.2 Legal Creditors

Also included in the list of total creditors is an amount of Kshs.1,214,386,000.00 in respect to legal creditors which is based on estimated value on all litigation cases under court process. The schedule provided did not indicate the details of the cases or the fee note per case. However, the schedule provided had a different figure of Kshs.1,362,625,961.85 as detailed in **Appendix 'VI'(b).**

3.7.3 Unremitted Statutory Deductions

A further amount of Kshs.4,667,729,000.00 and Kshs.5,269,357,000.00 for the periods ended 28 February, 2013 and 30 June, 2013 respectively represented unpaid statutory deductions not remitted as required. No Creditors' Control Ledger was provided to confirm the movement of the creditors' balances.

The Governor has since acted on some our recommendations and appointed a Pending Bills Verification Task Force to finalize the issue of pending bills. The task force should prepare a policy for future handling of pending bills. The accounts officials should also request for written instructions from senior officials ordering them to pay selected suppliers.

3.8 Analysis of LAIFOMS Expenditure Module

- Expenditure totalling Kshs.11,019,322,188.00 was processed through the LAIFOMS Expenditure Module, during the period between 1st July 2012 to 30 June 2013 out of which Kshs.3,838,049,415.00 was indicated as paid with Kshs.1,337,144,987.00 processed from the old accounts which were supposed to have been closed while the balance of Kshs.7,181,272,773.00 was carried over to 2013/2014.

- It was however noted that although cheques for Kshs.3,838,049,415.00 had been processed, cheques of undetermined amounts were not released to the suppliers making it difficult to confirm the accuracy of the actual payments made considering that no bank reconciliation statements were provided.

- During the transition period between January and February 2013, the total commitments amounted to Kshs.6,031,712,741.00 out of which Kshs.2,345,185,419.00 was indicated in LAIFOMS as paid while Kshs.3,686,527,322.00 was carried over to 2013/14 as detailed in **Appendix 'VII'** and as summarized below: -

Period	Paid	Not Paid	Total
Between Jan-Feb-13	**949,630,742.00**	**1,160,980,369.00**	**2,110,611,111.00**
March-13	149,260,533.00	539,652,315.00	688,912,848.00
Between Apr-Jun -13	**1,246,294,144.00**	**1,985,894,638.00**	**3,232,188,782.00**
Total	**2,345,185,419.00**	**3,686,527,322.00**	**6,031,712,741.00**

It is not clear why commitments were made with no budgetary provisions. A review of the LAIFOMs should be undertaken to verify the validity of the data produced by the programme. Proper reconciliations should be undertaken to establish the actual financial status of the County.

3.9 Payment Vouchers not captured in LAIFOMS

Tread analyses of LAIFOMS payment vouchers serialization, disclosed that the NCC processed a total of 27,288 transactions. However, examination of the LAIFOMS payment register showed that only 23,882 transactions had been captured leaving a total of 3,406 transactions undisclosed as summarized below: -

Month	P.V. No.	Count P.V. No.	LAIFOMS PV	Count	Not Disclosed
Jul-12	1207-0972	1207-0802	972	802	170
Aug-12	1208-2457	1208-2246	2,457	2,246	211
Sep-12	1209-8420	1209-7632	8,420	7,632	788
Oct-12	1210-5641	1210-5117	5,641	5,117	524
Nov-12	1211-2624	1211-2221	2,624	2,221	403
Dec-12	1212-1058	1212-0962	1,058	962	96
Jan-13	**1301-2160**	**1301-1934**	**2,160**	**1,934**	**226**
Feb-13	**1302-1325**	**1302-0932**	**1,325**	**932**	**393**
Mar-13	**1303-0648**	**1303-0476**	**648**	**476**	**172**
Apr-13	**1304-0475**	**1304-0294**	**475**	**294**	**181**
May-13	**1305-1062**	**1305-0917**	**1,062**	**917**	**145**
Jun-13	**1306-0446**	**1306-0349**	**446**	**349**	**97**
Total			**27,288**	**23,882**	**3,406**

The 3,406 undisclosed transactions included 1,214 transactions made during the transition period i.e. between January and June 2013 whose financial value remains unknown. In the absence of reconciliations, it would appear that the expenditure related to these vouchers had not been properly clarified.

All the transactions in the LAIFOMS from 1st July 2012 to 30 June 2013 should be reconciled and all recorded transactions/payment vouchers accounted for.

3.10 Procurement of Goods and Services

It was observed that major expenditures immediately after and during transition to County government were mainly on direct procurement of refurbishments, furniture, advertisements, motor vehicles and other recurring items and none on development items.

3.10.1 Cash Purchases of Goods and Services

During the period under review a total of Kshs.487,037,267.00 was spent on direct purchase of goods and services through IOUs, imprests and en-cashed cheques in total disregard of the provisions of Public Procurement and Disposal Act, 2005 as follows: -

Procurement Method	Amount -Kshs.
IOU's	29,021,813.00
Encashment of Cheques	223,861,330.00
Imprests	235,903,246.00
Total	**488,786,389.00**

The County management should ensure compliance with the law on procurement and minimize use of cash, imprests and IOU's as a procurement procedure and follow PPOA Circular No. 6/2010 dated 18th June, 2010 which requires procurement entities to use Framework Contracts for most frequently required items. Unsurrendered imprests and IOU's should be recovered from officers holding them while Cancellation of LPOs/LSOs which had already been processed and a lot of time and allowances wasted should also be investigated and appropriate action taken.

3.10.2 LAIFOMS LPOs/LSOs

- According to the LAIFOMS, LPO's and LSO's issued as at 30 June 2013 for the procurement of goods and services totalled to Kshs.1,553,006,041.00 out of which Kshs.1,193,519,357.00 were indicated as having been paid leaving a balance of Kshs.359,489,684.00 pending as shown in **Appendix 'VIII'** and as summarized below:

Period	Total	Paid	Pending
Dec	**995,190,966.00**	**742,676,349.00**	**252,514,617.00**
Jan-Feb	388,432,465.00	335,559,495.00	52,872,970.00
Mar	**22,974,600.00**	**13,893,000.00**	**9,081,600.00**
Apr-June	146,408,010.00	101,387,513.00	45,020,497.00
Total	**1,553,006,041.00**	**1,193,516,357.00**	**359,489,684.00**

- Like with the payment vouchers, it has not been possible to co-relate these paid suppliers in the LPO's/LSO's schedule with those in the payment vouchers. In the absence of reconciliations for the two sets of records it has not been possible to verify the status of the creditors.

- Although the system generated LPOs/LSOs were to be used, it was noted that the same was not adhered to and the County continued to manually prepare and process orders and no plausible reason was provided. In one instance, it was noted that a company M/s Megasoft received duplicated orders for the supply of fire extinguishers.

3.10.3 Cancellation of LPO's/LSO's

Further, it was noted that LPO's/LSO's valued at Kshs.149,607,588.00 processed in the LAIFOMS system were cancelled instead of being issued to the suppliers as shown in **Appendix "IX"** and as summarised below:

Period	Value
Dec-12	**63,466,094.00**
Jan-Feb 2013	77,750,794.00
Mar-13	**4,258,000.00**
Apr-Jun 2013	4,132,700.00
Total	**149,607,588.00**

No credible reasons have been provided for cancelling them at this stage. Cancellation of LPOs/LSOs which had already been processed and a lot of time and allowances wasted should also be investigated and appropriate action taken.

3.10.4 Medical Supplies

During the period 1st July 2012 to 30 June 2013 a total of Kshs.159,083,800.00 was according to the LAIFOMS Expenditure Module applied towards purchase of medical supplies out of which Kshs.29,546,800.00 was paid before the transition period and Kshs.103,419,100.00 was settled during the transition while Kshs.26,117,900.00 was outstanding as at 30 June 2013as shown in **Appendix 'X'(a)**.

Sample of records obtained from the Central Medical Stores however, revealed that receipt of the drugs varied from those recorded at the various health centers sampled for audit verification. Indications are that the records were either doctored and drugs diverted to private clinics or not all the drugs procured were received. From the sample taken, the discrepancies totalling Kshs.3,212,164.00 were perpetrated through apparent alteration of the original Stores Issue Vouchers (SIVs) at the medical stores as shown in **Appendix 'X'(a)i.** It was also observed that there as a lot of resistance in the deployment of qualified procurement personnel at the Central Medical Stores which made audit verification of medical supplies almost impossible.

The County management should ensure that qualified procurement personnel are recruited and deployed at the central medical stores to enable maintenance of proper stores records and those responsible for falsification of medical supplies records should be investigated and appropriate action taken.

3.10.5 Garbage Collection

(i) During the period 1st July 2012 to 30 June 2013 a total of Kshs.344,256,607.00 was according to the LAIFOMS Expenditure Module paid to private garbage collectors out of which Kshs.154,590,643.00 was paid before the transition period and Kshs.118,334,272.00 was settled during the transition while Kshs.71,331,692.00 was outstanding as at 30 June 2013 as shown in **Appendix 'X'(b)**.

(ii) It was noted this amount was paid to private firms while the City Garbage trucks acquired through asset financing by the Cooperative Bank of Kenya were grounded at the County Garage Depot requiring only minor repairs some of not more than 300,000.00. Out of nineteen (19) firms paid, five (5) firms received 85% of the all the payments ranging from Kshs.15,214,990.00 to 195,483,499.00 as follows: -

Payee	Amount - Kshs.	Comments
Beta Best Enterprises	195,483,499.00	Firm not in Registrar of Companies data base
Kange Construction Co. Ltd	29,934,288.00	Registrar of Companies has not confirmed registration
Bizcan Transporters	29,388,000.00	Registered as beer transporter
Commodity Waste	17,276,553.00	Registered
Jesker Enterprises	15,214,990.00	Registrar of Companies has not confirmed registration
Sample Total	**287,297,330.00**	

Enquiries at the registrar of companies revealed that some of the firms were not traceable at Registrar of Companies while audit inspection at Dandora Dump Site revealed that some Lorries did multiple dumping within a few minutes e.g. at ten minutes interval making it doubtful whether they had actually left the site.

It was also observed that Kshs.166,225,352.00 was paid to various firms listed below which were not in the prequalified list.

Name of Firm	Total Amount paid
Commodity Waste Management	**41,884,244.00**
Jesker Enterprises	15,214,990.00
Kange Construction	**32,966,369.00**
Veolia Kenya Ltd	2,315,647.00
Juli Investments	**6,655,343.00**
Naomi General Merchants	4,587,182.00
Puka Investments Co.	**9,656,722.00**
Kurstan Builders Ltd	10,627,998.00
Wonderful City Cleaners	**5,200,659.00**
Bvcrose Enterprises	13,160,244.00
Kamumu Bins Co.	**13,045,852.00**
Honns Investments	334,526.00
Jane Wangari Mwangi	**9,333,909.00**
Njigu Enterprises	1,241,667.00
Total	**166,225,352.00**

The County management should develop a policy on garbage collection to guide the engagement and performance of garbage collectors. In addition, the County management should consider the option of repairing the garbage trucks lying at their garage depot, some of which may require minimal resources. Those responsible for loss of County funds through falsification of Dandora Dump Site records for the benefit of garbage collectors should be investigated and prosecuted as appropriate.

3.10.6 Lighting Masts

During the period 1st July 2012 to 30 June 2013 a total of Kshs.101,929,150.00 was according to the LAIFOMS Expenditure Module expended towards Lighting Masts out of which Kshs.43,086,580.00 was paid before the transition period and Kshs.52,108,813.00 was settled during the transition while Kshs.6,733,757.00 was outstanding as at 30 June 2013 as shown in Appendix 'X'(c). Although the lighting masts were physically verified, a number of them were not working as intended. It was not clear why the payments were made before testing and commissioning of the masts.

The County management should ensure that due diligence of contracted firms is done while final payment certificates should only be settled after the lighting masts are tested and commissioned. The contractors should also be required to make good any defect before retention money is released. The County management should also ensure that all contracts have a clause stipulating the defect liability period.

3.10.7 Roads Maintenance

During the period 1st July 2012 to 30 June 2013 a total of Kshs. 170,379,366.00 was according to the LAIFOMS Expenditure Module expended towards roads maintenance out of which Kshs. 97,302,366.00 was paid before the transition period and Kshs.45,172,866.00 was settled during the transition while Kshs.24,322,454.00 was outstanding as at 30 June 2013 as shown in **Appendix 'X'(d)**.

Physical verification on sampled roads revealed that most of the roads maintained had gone back to their back to dilapidated state indicating shoddy or poor supervision of the works. Although the contractors and city engineers attributed the poor state of the roads to weather and passage of time between the repairs and the time of the audit and even informed us before audit inspection that we were unlikely see clear evidence of repairs undertaken, it was not explained why the final payment certificates were made before thorough inspection and commissioning of the rehabilitation works. Some construction firms were also given multiple and continuous maintenance works before carrying due diligence on previous performance and capacity.

The County management should ensure compliance with clearly defined terms and conditions of roads maintenance contracts such as payment of final certificates after the roads maintained/rehabilitated are inspected and commissioned. The contractors should also be required to make good any defect before retention money is released. The County should also ensure that all contracts have a clause stipulating the defect liability period. Finally, due diligence should be carried out on construction firms before issuing them with contracts.

3.10.8 School Furniture and Construction of Boundary Walls

During the period 1st July 2012 to 30 June 2013 a total of Kshs. 112,576,436.00 was according to the LAIFOMS Expenditure Module spent on school furniture and construction of boundary walls out of which Kshs.50,400,571.00 was paid before the transition period and Kshs.46,739,991.00 was settled during the transition while Kshs.15,435,874.00 was outstanding as at 30 June 2013 as shown in **Appendix 'X'(e)**. Physical verification on sampled city schools disclosed most of the furniture procured had been delivered. However, all the school boundary walls constructed should be inspected to ensure they do not encroach on school land.

3.10.9 Purchase of Cleaning Materials

During the period 1st July 2012 to 30 June 2013 expenditure totalling Kshs.86,294,600.00 was utilized by the Environment Department on purchase of cleaning materials out of which Kshs. 36,315,600.00 was paid before the transition period and Kshs.37,643,500.00 was settled during the transition while Kshs. 12,335,500.00 was outstanding as at 30 June 2013 as shown in **Appendix 'X'(f)**. The bulk of these items were consumables mainly liner bags for garbage collection whose verification was not possible since stores records were not properly maintained.

The County management should ensure that qualified procurement officers are deployed in the Environment Department to maintain proper stores records.

3.11 Motor Vehicles

(i) Records made available for audit indicate that NCC inherited a total of 309 vehicles with an estimated value of Kshs.58,633,000.00 out of which 263 vehicles or 85% were verified leaving a balance of 45 vehicles not produced for physical verification as shown in **Appendix 'XI'(a)**.

(ii) It was also noted that the vehicles had not been valued and it's not clear how the insurance total value of 13,962,471.44 was arrived at. Further, a total of 45 vehicles as listed in **Appendix/XI(b)** were under unexplained circumstances insured under individuals' private policies some of which had exaggerated values as shown in **Appendix 'X'(c)**.

(iii)In addition, twelve (12) were acquired through asset financing and their log books indicated they were jointly owned with the Co-operative Bank of Kenya as listed in **Appendix 'XI'(d)**. However, the details relating to the financing arrangements were not provided.

(iv)A total of sixty (60) vehicles were found grounded at the City Garage Workshop with some requiring only minor repairs while others have been grounded for a long period of time and had in the process depreciated considerably as shown in **Appendix 'XI'(e)**.

(v) Included in the grounded vehicles are garbage collection trucks acquired through asset financing arrangements whose loan repayment is still ongoing.

Part of abandoned Vehicles at the Garage **Part of the Gabage collection Vehicles**

(vi) It is not clear how new vehicles expected to be used for garbage collection would remain grounded as the County pays colossal amounts to private garbage collection firms as well as interest on loan when no services are realized from the investment.

(vii) Further eight (8) more vehicles were said to have been donated by various donors to the defunct CCN for unspecified projects but were however not produced for physical verification as listed in **Appendix 'XI' (f)**.

(viii) Auctioned Motor Vehicles

Another ten (10) motor vehicles were said to have been disposed through a public auction but no details were provided in regard to their ownership, value, registration numbers, date of the auction, the auctioneer, the amount realized vis-à-vis their estimated value or why they were auctioned.

(ix) Inspectorate vehicles

Verification of the vehicles used by the inspectorate department revealed that most of them were in dilapidated condition notwithstanding their being used to ferry both the inspectorate officers and people arrested for various reasons. During the verification exercise it was found out that all the vehicles belonging to Inspectorate Department had weapons e.g. pangas, metal bars, empty beer bottles and other crude weapons.

The County management should develop a policy on motor vehicle fleet management which should include details on location, ownership, valuation insurance cover records and disposal among others.

3.12 Non-Current Assets

Records made available indicate that as at 28 February 2013 and 30 June, 2013 the defunct CCN and the NCC held Non-current assets worth Kshs.8,427,040,000.00 and Kshs.8,593,878,000.00 respectively reflecting a net movement of Kshs.166,838,000.00 as detailed below. The position as at 1 January 2013 was not provided.

Non-Current Assets	Value (Kshs.) as at:		Movement
	28 February,2013	30 June,2013	
Land & Buildings	2,324,263,000	2,301,443,000	-22,820,000
Capital work in progress	**2,826,814,000**	**3,097,039,000**	**270,225,000**
Plant &Equipment	43,279,000	29,168,000	-14,111,000
Infrastructure	**2,996,425,000**	**2,969,213,000**	**-27,212,000**
Motor vehicles	59,490,000	58,633,000	-857,000
Furniture fittings &Equipment	**87,521,000**	**49,134,000**	**-38,387,000**
Community Asset	89,248,000	89,248,000	
Total	**8,427,040,000**	**8,593,878,000**	**166,838,000**

However, the Fixed Assets Register and relevant schedules were not made available to facilitate ascertainment of the non-current assets values, actual existence and ownership for the two periods and the movement thereon. The assets and in particular land and buildings appear to have been grossly undervalued. Without a fixed assets register and relevant schedules it was not possible to ascertain the actual carrying amounts and movement of the Non-current Assets between the two periods or verify the existence, valuation or ownership.

The County management should ensure proper records and values of all assets are kept and properly maintained.

3.13 County Land

(i) Un-surveyed Land

The defunct CNN did not maintain a proper assets register. The list provided for audit did not have any values for assets handed over. It was therefore not possible to confirm the accuracy of the assets taken over by the County Government or their carrying values as detailed in Appendix **'XII'.** Further, the majority of the land/plots inherited from the former CCN remained un-surveyed with no land reference numbers (L.R numbers) thus making it attractive to speculators and land grabbers.

(ii) Construction of Perimeter Walls

During the period immediately before and during the transition period perimeter walls were constructed in various Council properties supposedly to protect the land from grabbers.

However, the noble idea was later converted as an opportunity to isolate parcels of land for private use especially so in city schools and health centers and stock yards since the perimeter walls were constructed inside the beacons.

(iii)**Allocation of County Land to Private Developers**

Prior to the transition period, various parcels of land belonging to the County were irregularly allocated to private developers. Some of the private developers have since constructed permanent structures while others have demolished properties previously owned by the defunct Council.

Further, the process of allocating the land to private developers did not appear transparent and it was not clear how those issued with leases were identified. Some individual benefitted from multiple allocations as detailed in the main report.

(v) **Nanyuki Road Stores and Depot**

It was in particular noted that Nanyuki Road stores and depot lost materials estimated to be worth over Kshs.50 million stored in the demarcated land. Also included in the fenced off area, was a caterpillar plant estimated to be worth Kshs.40 million and two City Council Offices which have since been converted into private offices by the beneficiary firms. It was further noted that due to this interference numerous breakages and theft have been reported resulting to loss of un-quantified County property.

Some of the irregularly allocated County Properties and Encroachments

An inspection undertaken within various divisions of the County during the exercise revealed that several County properties have either been allocated, disposed off or encroached as follows: -

	Properties Sampled	**Description of finding**
1.	Kaloleni Estate Development	Allocated to M/s Hashi Energy and a petrol station and a storey building erected at the site. Allocation records were not made available.
2.	County Garage Depot	Attempts were made to demarcate land reserved for Council Motor Vehicles and the targeted area fenced off. The garage canteen was allocated to a private developer but no allocation records were made available.

3.	Lang'ata Road Primary School land	**Portion allocated to private developers. A hotel being constructed at the site. Allocation records were not made available.**
4.	Madaraka Primary School	Land encroached and boundaries interfered with. Allocation records were not made available.
5.	**Highway Stores – Ladhies Road (LR NO.209/2531/1)**	**Acres (3.5) allocated to private developers. Allocation records were not made available.**
6.	Nairobi River Primary School	Land encroached. Allocation records were not made available.
7.	**Nanyuki Road Stores - (LR NO. 209/7750/3)** **Excavator/Tractor (KWE O65) and Building Materials** **Part of materials scattered at the fenced off plot** 	**Land reserved for Road Maintenance Materials was demarcated and 1.227Ha. (3.031 acres) hived off and allocated to M/s Hass Petroleum Ltd.** **Caterpillar estimated at Kshs.40 million and materials estimated at Kshs.22,622,625.00 were inaccessible to the County officials as a perimeter wall had been elected fencing off the construction materials.** **Some materials of unknown value were destroyed during the process while others had been converted into private use by M/s Hass Petroleum Ltd. Allocation records were not made available.**

8.	Highridge Health Centre	The Health Centre was Demolished and the parcel of land allocated to private developers. It was also noted that the Health Centre continued to receive funding from the Ministry of Health through the Nairobi Health Management Board despite not being operational. Allocation records were not made available.

There is no evidence that the consent of the then Minister for Local Government was sought as per the requirement of the defunct Local Government Act, Cap 265. Given that this was only a sample the practice may have persisted to other County properties. In order to protect the City County land, all un-surveyed land should be surveyed and titles obtained and any allocated illegally should be repossessed by the City County.

3.14 Local Authority Transfer Fund (LATF)

In the period March to June 2013, the County received Kshs.1,568,147,970.00 as LATF out of which Kshs.666,000,000.00 was diverted to the repayment of Kshs.5 Billion loan borrowed from Equity Bank. The balance of Kshs.902,147,970.00 related to bursaries and numerous LASDAP projects most of which remained in progress.

Westlands Divisional Offices at City Park left incomplete by M/s Sudi Contractors.

A list of the main projects and their status is shown in **Appendix 'XIII'.**

Bursaries

Bursaries totalling Kshs.73,659,746.00 were between July 2012 to June 2013 issued to students in various educational institutions. However, the schedules provided for audit did not have admission numbers of the students and as a result, it has not been possible to confirm that the bursary beneficiaries were bonafide students in the numerous listed educational institutions. All bursaries should be supported by schedules bearing the admission numbers of the respective students as well as confirmations from beneficiary institutions.

3.15 Equity Bank Loan

On 30 March 2011, the then management of the defunct City Council obtained a Loan of Kshs. 5 billion from Equity Bank at a transaction fee of Kshs.50 million. The loan was meant to cater for payment of statutory debts which were attracting huge interest charges and was repayable in sixty (60) months in installments of Kshs.333,333,334.00 payable every quarter at an interest rate of 10% per month. However, the interest for unknown reasons kept on varying upwards making it difficult to reconcile.

The entire loan was not utilized for the intended purpose but was used to pay suppliers and legal pending bills on advice of Wachira Irungu & Associates who incidentally were also co-opted as signatory to the Equity Bank Account. The firm had earlier been contracted by the Auditor General to carry out backlog audit and using the information gathered on pending bills they were retained as forensic consultants for verification of CCN creditors.

The consultants approved a total of Kshs.2,433,067,465.00 pending bills to be paid to various lawyers and suppliers of goods and services out of which Kshs.1,288,205,759.00 had already been paid by the time the firm compiled their report.

3.15.1 Analysis of the Equity Bank Loan

Analysis of the Equity Bank Loan revealed that out of the Kshs. 5 billion borrowed, Kshs.1,651,845,644.10 had been paid as interest at varying rates while Kshs.2,334,000,004.00 had been paid as principal leaving a balance of Kshs.2,666,466,838.00 as at 30 June 2013. The County has been paying quarterly Kshs.333,333,334.00 as principal with monthly interest of about Kshs.60,000,000.00. A total of Kshs.403,641,326.59 was paid as interest between January and June 2013 together with the March 2013 principal installment. The City County defaulted in the principal loan repayment for the June 2013 and this may attract additional penalties. Consent of the then Minister for Local Government was not availed for audit review together with the agreement and Full Council Resolutions approving the borrowing from Equity Bank and utilisation.

It is not clear why the statutory debts were not settled as envisaged and are still outstanding and attracting the huge penalties that would otherwise have been avoided had they been cleared as planned. The County management therefore should adhere to the terms and conditions of the Equity Bank Loan and ensure full settlement of the loan in order to avoid additional interest and penalties.

3.16 Legal Payments

- During the period 1st July 2012 to 30 June 2013 a total of Kshs.232,060,186.00 was according to the LAIFOMS Expenditure Module expended towards court cases out of which Kshs.113,838,492.00 was paid before the transition period and Kshs.86,750,061.00 was settled during the transition while Kshs.31,471,633.00 was outstanding as at 30 June 2013. However another list provided showed that the outstanding claims on litigations were Kshs.**1,190,576,213.58** but no reconciliations were provided.

- The legal department records also indicate that the County inherited about 1,800 legal cases from the former CCN likely to cost the City billions of shillings some of which have been outstanding for over 10 years.

- According to a forensic auditor engaged by the defunct city council, the outstanding legal claims payable to lawyers as at July 2012, amounted to Kshs.181,892,300.00 out of which Kshs.120,556,124.00 was paid using a credit facility advanced by a local bank. Included in the amount paid was Kshs.14,289,045.00 paid to two legal firms not in the verified list. According to the consultant report, the balance that should have been carried over as pending was Kshs.61,336,176.00.

- Further, review of the report indicated that one lawyer who at the time did not possess a practicing certificate representing the investor was claiming a decretal amount of Kshs.3,151,700,000.00 as claims for loss of property envisaged for a four star hotel. Records available indicate that the property in question LR No. 209/8254 is actually Mariakani Primary School which is County property.

- The CCN lawyer in the case was claiming Kshs.68,876,169.00 and had already been paid Kshs.10,000,000.00 which should have been refunded given that the case was withdrawn for want of prosecution. No efforts appear to have been made to recover the amount paid despite recommendations of the forensic auditor.

The Governor has since acted on some of our recommendations and appointed a Legal Pending Bills Verification Task Force to scrutinize all legal files and pending legal claims by lawyers. The task force should develop a policy for handling litigation in the County. The cases cited above among others should be followed up for recovery and appropriate action against those found culpable.

3.17 Information Communication Technology (ICT)

3.17.1 Hardware

The IT Department did not have in place an ICT Asset Register to records all IT inventory inherited from the defunct CCN and those acquired by the new NCC showing their condition and locality.

It was also observed that the procurement of ICT equipment in the County was not centralized with each department procuring it's own ICT equipment after being issued with specifications by ICT Department. The County had in place six (6) operating servers running the LAIFOMS, Ad Manager, Mail, Backup and the Parking Management System.

Decentralization of the procurement of ICT equipment and running of numerous disjointed servers may result in the County not obtaining value for money and economies of scale from the acquisition of ICT equipment.

The County should ensure that the existence of a complete ICT Assets Register which is regularly updated indicating the location and condition of each equipment. All procurements of ICT equipment should be centralized and not left to individual requirements, sections and departments.

3.17.2 Network Connectivity

The County had in place a network diagram which detailed the network topology in place at the County Headquarters. There is a Wide Area Network in place at the County that connects Pumwani Maternity Hospital, City Mortuary and the Makadara Sub-County offices. However, this is not sufficient since the other sixteen (16) sub-County offices are not networked.

The County had in place the Government Common Core Network (GCCN) which is a fiber based network that links the entire country. Availability of fiber connectivity in the County Headquarters will reduce the cost of obtaining internet connection and networking needed to facilitate the easier access of information within the County. It was however noted that Treasury had not configured the GCCN to create a secure and private connection.

The County should take advantage of technology and ensure that all its Sub-County Offices are inter-connected to the head office to ensure efficient monitoring and integration of all transactions.

3.17.3 Software Programmes

a) IFMIS

- The County has been able to utilize fully the IFMIS system where they had been able to prepare the budget using the system and had since made three hundred and sixty seven (367) payments amounting to Kshs.1,019,195,570.95 through the system and G-Pay at the time of our assessment. However, the County was experiencing significant delays during the transaction cycle due to the downtime of IFMIS servers at treasury thereby affecting their efficiency. Twenty (20) Orange Modems were received by the County for IFMIS and it was observed that the orange signal in Nairobi was relatively strong but a fiber connectivity in the County is recommended with Treasury configuring a Virtual Private Network (VPN) to create a more secure and reliable connection.

- During the period under review, expenditure amounting to Kshs.300,493,126.10 was processed through IFMIS out of which Kshs.142,752,782.00 was incurred in respect of the County Executive. The balance of Kshs.157,740,343.10 was incurred in respect of the County Assembly. Further, Kshs.489,479,844.00 was received by the County from the exchequer and processed through IFMIS. However, total collections for the transitional period amounted to Kshs.5,511,732,231.00 out of which Kshs.922,970,051.00 related to the period 6 May 2013 to 30 June 2013 when the IFMIS was operational and should have been received through the system and transferred to the County's Central Bank Account. No explanation has been provided for failure to heed the Transitional Authority guidelines.

- The computers received by the County from The National Treasury for IFMIS purpose did not have updated anti-virus or corporate anti-virus software in place.

- Although fifty two (52) County staff had received IFMIS training, officers from the ICT Department were not included in the training programme yet this department is critical in the support of the system.

The County Government should ensure that Treasury configures the fiber connectivity into a VPN to create a more secure and reliable connection. Treasury should also fast track the implementation of IFMIS and integration of the Revenue Module of LAIFOMS integrated to ensure all revenue collected by the County is reflected in IFMIS to promote accountability of funds.

b) LAIFOMS

- LAIFOMS was installed in one site at the former CCN and at the Makadara Sub-County office which was connected to the headquarters via a Microwave link. This had facilitated the automation of revenue collection in only one Sub-County with the other sixteen (16) Sub-Counties still operating manually. The receipting and expenditure modules were the only active modules.

- During the transitional period, an expenditure of Kshs.5,690,004,607.00 was processed through LAIFOMS with Kshs.2,278,797,048.00 relating to the period between 6 May 2013 and 30 June 2013 which should have been processed through IFMIS in line with the directive of the Transitional Authority.

- Further the LAIFOMS Expenditure Module was supposed to have been disabled from 1st July, 2013 since the budget was not prepared through the system. However, payments amounting to Kshs.692, 815,369.00 were made through the system after this date in complete disregard of Treasury directives as detailed in **Appendix 'XIV'**.

- The system was also not able to generate weekly or monthly reports on the revenue collections as well as generation of reports of the County because of a timeout error attributed to inadequate maintenance of the system.

- A walkthrough the system revealed that users were not fully utilizing the system and were not posting the banking slips to ensure that all revenue collected is banked intact since the total receipts should equal the direct banking made by its clients and banking made by the cashiers which make it difficult for the County to determine if all monies received are banked intact and ascertain its overall revenue position at any one time.

  The County management should take control of the management of LAIFOMS previously installed in the defunct Local Authority to ensure that revenue collection is properly accounted for. The County may also seek the assistance of the Ministry of Devolution and Planning to ensure that the previously contracted service provider provides adequate LAIFOMS support and maintenance.

c) G-Pay

The County has only one computer in place dedicated for G-Pay which is kept at the Interim County Treasurer's Officers' Office. The system is operational and payments totalling to Kshs.189,170,652 have been made through the system. The County management should however, ensure they have a back machine dedicated to this system in-case of any mechanical challenges.

d) Integrated Payroll and Personnel Database (IPPD)

The County had implemented IPPD system and the May 2013 payroll was processed using the system. There were six (6) users who had been trained on the use of the system. It was however noted that the data migrated into IPPD had the following integrity issues as highlighted below and as detailed in the attached **Appendix 'XVII'**.

There were: -

- Two (2) officers PF. No 19860001887 and PF. No 19920007656 whose basic salary irregularly increased from Kshs. 15,297 to Kshs. 46,580 and from Kshs. 14,925 to Kshs. 42,000 respectively with the implementation of the CBA.
- Forty five (45) officers from the former CCN who earned leave allowance twice during the same financial year between the months of January to May 2013.
- Eight (8) officers whose employment status in LAIFOMS indicated either retired or suspended but were active in IPPD.
- Twenty four (24) officers whose records in IPPD show that they were employed into permanent and pensionable terms of service below the statutory age of eighteen (18) years.
- Eleven (11) officers whose bio data was incorrectly captured where the date hired was before the date of birth.
- One hundred and twenty one (121) officers with incorrect PIN.
- Ten (10) officers with incorrect ID Card Numbers.
- Five (5) officers who were employed into permanent and pensionable terms above the age of fifty (50) years contrary to Government regulations where an officer has to have at least ten (10) years left to retire before employment.
- Forty seven (47) bank accounts that were each being shared by more than one officer.
- Nine (9) officers who received non-practicing allowance ranging from Kshs.2,500.00 to Kshs.92,688 between January and April 2013 contrary to the regulations which require Non-Practicing Allowance to be paid at a rate of Kshs.5,000 per officer for each professional body that the officer has joined.
- Eighteen (18) officers whose recovery period for their salary advances and IOUs was more than one year contrary to the Code of Regulations which states that salary advances should be cleared within one year. Among the eighteen (18) officers, fourteen (14) had IOU balances amounting to Kshs.4,014,990.
- Sixteen (16) officers earned net salaries that were less than third (1/3) of their basic pay during the month of September 2012 thus contravening the Ministry of State for Public Service Circular Ref. No. DPM 23/5A Vol. XVIII/ (55) dated 25 September 2008, which prohibited officers from over committing their salary.
- Eight (8) officers whose dates of birth in IPPD and in LAIFOMS were different.
- Thirty one (31) officers whose dates of employment in IPPD and in LAIFOMS were different.

In conclusion, it was noted that there was inadequate control over the IPPD system which may lead to the fraudulent payments.

The County management should ensure that qualified ICT officers are recruited and adequate training on the use of IPPD is provided to existing staff in the payroll department to maintain data integrity. The county should also carry out data cleansing and audit the human resource data to ensure integrity of the payroll. Appropriate action should also be taken on the identified employees and the senior officials responsible.

e) Stand Alone Systems

i. E-Construction System

Records available indicate that the E- Construction infrastructure was procured at a cost of Kshs.10,635,600.00 and a number of staff were trained. According to the MoU seen, the International Finance Corporation (IFC) was to develop a blueprint, offer advisory services as well as train the relevant staff but the related costs have not been disclosed. This project was aimed at automating the issuing of the Construction Permits and was implemented as a joint venture between the CCN and the IFC under the Kenya Investment Climate Programme.

The System was developed by M/s Webmasters Kenya and was designed to address challenges associated with loss of plans and delays in their processing culminating to disagreements with professional organizations in the construction sector. The web-based programme is currently being used by architects for online submission and approval of building plans after which invoices are generated based on a particular area. Payments are then processed through LAIFOMS and permits issued. Between October and August 2013 building plans with estimated cost of Kshs.166,281,291,448.90 were submitted and fees of approximately 11% or Kshs.189,578,756.00 collected.

Available correspondences indicate that another consultant was engaged as maintenance service providers at estimated annual fees of US $18,120.00 (Kshs.1,539,297.97) per year or Kshs.128,274.83 monthly. However, no Programme Licenses had been delegated to the City County as the donor had for unexplained reasons withheld the Initial Programme Rights (IPR). Consequently, there are no source codes to enable the County have any administrative rights. In the absence of these access rights, the staff could not gather or provide data that could be correlated to the permits approved and revenue collected.

Further, no programme manuals existed and it appeared that the County officers were operating only on the initial training they had received. Additional information obtained indicated that the system developers had contracted a private firm on a local hosting agreement for data backup. However, this agreement was not made available for audit review.

The County management should ensure that the E-construction project being major source of revenue is properly implemented and integrated with LAIFOMS/IFMIS to ensure that 'construction permits' invoices generated by the system are actually paid and receipted at one cost centre. A proper agreement should be signed with IFC and adequate training provided to the respective staff.

ii. Single Business Permits

This project aimed at automation of Single Business Licenses and was to be implemented as a joint venture between the CCN and the IFC again under the Kenya Investment Climate Programme. At the time of the audit in September 2013 the programme was still at the preparatory stage but no details were provided including the agreement between the CNN and the IFC. In the absence the contract agreement and budgeted expenditure details, the progress and associated costs could not be confirmed.

The County management should ensure that a proper agreement is signed with the donor. The automation of Single Business Licenses System should be fast tracked and integrated with LAIFOMS/IFMIS to ensure that 'single business permits' invoices generated are actually paid and receipted at one cost centre.

iii. Ad Manager System

This project aimed at the development of a web based system to manage advertisements, billboards and signages which could be used in the generation of invoices. M/s Kusini Limited was initially engaged as a consultant at a cost of Kshs.3,600,000.00. Although this programme was developed and advertisement and signage data input completed, in June 2013 the consultant abandoned the project after shutting it down for non-payment for services rendered. By the time of audit in September 2013, no data was accessible and the system was not in use.

The County management should ensure that enforceable agreements and service contracts exist to avoid suppliers holding the County at ransom. The system should also be integrated with the IFMIS/LAIFOMS to ensure efficient revenue collections.

iv. Medical Certificates System

This system was in-house developed and was aimed at managing issuance of medical certificates to staff handling food and beverages in the hospitality industry. However, the system only generates invoices and payment is made through LAIFOMS. No user manual was available or clear levels of administration defined in any policy.

The County management should ensure that the system is fully automated and integrated with LAIFOMS/IFMIS to ensure that medical certificates invoices generated are actually paid and receipted at one cost centre.

v. Mortuary Management System

This was also an in-house developed programme and was aimed at managing the operations at the City Mortuary. However, revenue collection was not automated due to connectivity issues and user manual were not available or clear levels of administration defined in any policy. The County management should ensure that the Mortuary Management System is fully operational and integrated with the main County systems IFMIS/LAIFOMS to ensure that users can both invoice and receipt revenue due for efficient operations.

i. Parking Management System

The Parking Management System is another in-house developed programme used for the issue of seasonal parking permits mostly for matatus and taxis. However, the system was only being used for the generation of invoices while payment of the same was through LAIFOMS. No user manual was available or clear levels of administration defined in any policy.

The Parking Management System should be extended by encouraging other motorists to acquire seasonal parking permits thus avoiding the many parking attendants who collude with their supervisors and motorist to defraud the County revenue due for collection.

The system should also be integrated with LAIFOMS/IFMIS to ensure invoices generated are actually paid at one cost centre.

ii. Ad Hoc Rates Application System

The programme was also in-house developed to support the automation of Rates Billing and Payments. However, no user manuals were made available for audit review or clear levels of administration defined in any policy.

The County management should ensure that the Ad Hoc Rates Application System is fully operational and integrated with the IFMIS/LAIFOMS to enhance potential for revenue collection.

iii. Electronic Bill Presentment and Payment Platform (E-Payment)

This programme was aimed at the establishment of an Electronic Bill Presentment and Payment Platform. A consultant M/s Hausraum Ltd was in September 2009 identified to provide consultancy services at an initial contract sum of Kshs.11,795,576.00. However, the E-Payment Platform was not operational at the conclusion of the audit in September, 2013 despite a total of Kshs.94,235,128.00 being spent on the project. It was further noted that three other related firms with same directors were paid a total Kshs.85,388,446.00 purportedly for the supply of goods related to the implementation of the electronic payment system as follows:

Firm	Amount - Kshs.	Comments
M/s Hausraum Ltd	54,938,894.00	Same directors
M/s Customer Care	14,620,000.00	,,
M/s Alga Kenya Ltd	15,829,552.00	,,
Total	**85,388,446.00**	

Efforts to physically verify the equipments supplied were not successful since the keys to the project Offices at City Hall including access codes were withheld by the consultant after termination of the contract.

The County management should ensure that value for money is obtained for the amounts paid to the consultants. Those responsible for the possible loss of Kshs.85,388,446.00 should be investigated and appropriate action taken.

3.17.4 IT Control Environment

The ICT department was during 2013/14 County Budget allocated Kshs.365,000,000.00 for capital expenditure in respect of automation of its revenue collection and expenditure.

Although consultants had been engaged to help the City County formulate and develop an ICT transformation roadmap, it was however noted that key ICT policy documents like the Business Continuity Policies (BCP) and Disaster Recovery Plans (DRP) had not yet developed or implemented. Though the server room had adequate physical access controls where access was only restricted to four people, it was however noted that there was no register in place for recording officers who had gained access to the server room. Further, the server room located in the ground floor of City Hall did not have proper environmental controls for fire detection and suppression; and humidity and temperature control systems.

A biometric reader should be put in place to control and monitor access to the server room and the County management should ensure that the current ICT strategic plan under development reflects the needs of the NCC and not of those of the defunct CCN. Fire detection and suppression systems, humidity and temperature control systems should be installed at the sever room.

3.17.5 Staff and Hardware

The IT Department did not have in place an ICT Asset Register to record all IT inventory inherited from the defunct CCN and those acquired by the new NCC showing their condition and locality. The procurement of ICT equipment in the County was not centralized with each department procuring its own ICT equipments which resulted in the County not obtaining value for money and economies of scale from their acquisition.

The County should ensure that a complete ICT Assets Register exists and regularly updated; indicating the cost, location and condition of each equipment. All procurements of ICT equipment should be centralized and not left to individual requirements, sections and departments.

3.18 Preservation of Accountable Documents, Books and Records

Audit visits to various County offices revealed that records are not properly preserved and maintained.

- In the valuation department where maps, deed plans, and other historical property records are kept, these records were found scattered on the floor some in tatters. The poor maintenance of these records could have been exploited to irregularly allocate land and other properties to 'private developers'.

- Further, paid payment vouchers were retained in their respective departments instead being centralized in the accounts departments making tracing and verification very difficult and time consuming.

- It was also not possible to verify materials purchased and delivered at the Nanyuki Road Materials Depot due to the poor state of the records with some including computers allegedly lost during frequent break-ins.

All accountable documents should be properly preserved and archived in accordance with the stipulated minimum period. The County should prioritise digitization of maps, deed plans, and other property records to facilitate their retrieval when required and also liaise with other government departments such as survey of Kenya and other relevant departments to reconstitute any lost data.

4 CONCLUSION

We expect that the implementation of our recommendations by the NCC will result in economic and effective management of the County resources and bring about the following immediate as well as long-term benefits to the Capital City:

4.1 Short-term and Intermediate Outcomes

Soon after the recommendations are implemented we expect that the County will experience:

- Improved revenue collection for use in financing delivery of services to residents;
- Reduced levels of debt as well as debtors;
- ICT driven operations for effective management, digitization and reduction of bulky manual records;

4.2 Long-term Outcomes

After the recommendations are fully implemented we expect:

- Improved accountability in revenue management;
- Financial stability of the County;
- Delivery of quality services to the residents of the Capital City of Kenya.

Edward R.O. Ouko, CBS
AUDITOR GENERAL

Nairobi

19 December 2013

5 GLOSSARY OF TERMS

Ad-Manager	Advertisement Manager
BCP	Business Continuity Policies
CA	County Secretary
CCN	CCN
CG	County Governments
CILOR	Contribution in Lieu of Rates
CTT	County Transition Teams
DRP	Disaster Recovery Plan
E-Construction	Electronic Construction
E-Pay	Electronic Payments
GCCN	Government Common Core Network
G-Pay	Government Payment
ICT	Information Communication Technology
IFMIS s	Integrated Financial Management Information
IOU's	I Owe You's
IPPD	Integrated Payroll Payment Data
LAIFOMS	Local Authorities Integrated Financial Management Systems
LAs	Local Authorities
LASDAP	Local Authority Service Delivery Action Plan
LATF	Local Authorities Transfer Fund
LPO	Local Purchase Order
LSO	Local Service Order
MoU	Memorandum of Understanding
NCC	NCC
OAG	Office of the Auditor General
PAYE	Pay as You Earn
PF	Personal File Number
PIN	Personal Identification Number
PPOA	Public Procurement Oversight Authority
USV	User Stated Value

6 APPENDICES

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