REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL OPERATIONS OF COUNTY ASSEMBLY OF VIHIGA

FOR THE PERIOD
1 JULY 2014 TO 30 JUNE 2015

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REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL OPERATIONS OF THE COUNTY ASSEMBLY OF VIHIGA FOR THE PERIOD 1 JULY 2014 TO 30 JUNE 2015

EXECUTIVE SUMMARY

Background Information

The Constitution of Kenya, 2010 under Article 176, created County Governments which consist of the County Assembly and the County Executive. The County Assembly which is the legislative arm of the County Government consists of the Speaker and Members of the County Assembly.

Introduction

This management and financial operations audit report covers the financial year ended 30 June 2015. The audit was undertaken to assess the adequacy and reliability of the systems of management and financial control instituted by the management of the County Assembly in running its affairs with emphasis on the use of public resources.

Terms of Reference

The Office of the Auditor-General is an independent office mandated by the Constitution under Article 229 to audit the accounts of the National and County Government. In this regard, the Office planned a management and financial operations audit of the County Assembly of Vihiga for the year ended 30 June 2015 with the following audit objectives:

i. To assess budgetary control and performance.

ii. To assess of controls on revenue and expenditure and on operation of cash accounts.

iii. To assess of controls over management of assets under the control of the County Assembly.

iv. To assess compliance with the procurement laws in process of acquisition of goods or services.

v. To assess compliance with Public Finance Management Act, 2012 in the utilization of public funds.

vi. To asses compliance with other relevant laws and regulations.

vii. To ascertain the confidentiality, integrity and availability of financial and other information used by management in the utilization of public funds.

viii. To confirm that all necessary supporting documents, records, and accounts have been kept in respect of all transactions.

Methodology

The methods used in carrying out the audit included the following:

i. Interviews with key officers at the County Assembly offices.

ii. Review of applicable legislation and regulations.

iii. Examination of payment vouchers and support documents, cashbooks, vote books, bank statements, bank slips, miscellaneous receipt books, procurement documents, stores records, asset registers and other related records.

iv. Review of minutes of various meetings where there were resolutions regarding utilization of public funds.

v. Physical inspection and verifications.

vi. Observation of processes and activities.

vii. Review of documents used by management to monitor use of funds.

Scope and Determination of Responsibilities

The audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs).The standards require that the audit is planned and performed so as to obtain reasonable evidence that, in all material respects, expenditure incurred is fairly stated and all financial transactions are recorded.

The matters mentioned in this Report are therefore those that were identified through tests considered necessary for the purpose of achieving the audit objectives and it is possible that there might be other matters and/or weaknesses that were not identified. The formulation and maintenance of effective control measures and compliance with laws and regulations is the responsibility of the management. My responsibility is to report on the weaknesses and non-compliance with laws and regulations identified in the course of the audit.

The following section highlights the key audit findings noted during the audit of the financial operations of the County Assembly of Vihiga for the year ended 30 June 2015.

Key Audit Findings

1.0 Budgetary Control and Performance

Out of the aggregate development budget amounting to Kshs.225,000,000.00 only a balance of Kshs.14,800,000.00 was spent during the financial year under review thus resulting to a very low absorption rate of 6.5%. Further, out of the aggregate recurrent budget amounting to Kshs.295,000,000.00, actual expenditure was Kshs.520,555,769.00 resulting to an over-expenditure of Kshs.225,555,796.00 or 176% of the budget. The over-expenditure was occasioned by reallocations of funds in the development budget to cater for re-current costs.

2.0 Irregular Personnel Costs

The Members of the County Assembly were each paid maximum monthly mileage of Kshs.39,528.00 or a total of Kshs.18,499,104.00. The payments contravened the Salary and Remuneration Commission's (SRC) Circular which stipulates that monthly mileage claims should be calculated on distance travelled by each individual MCA to their respective area of representation.

In addition, leave allowances amounting to Kshs.1,142,741.20 for the month of December 2014 and arrears totaling to Kshs.4,882,791 were not supported with relevant documents and therefore could not be confirmed as valid.

Further, a total of Kshs.1,276,644 was paid as salaries to security personnel who were not employees of the Assembly. Also, on several occasions, the Assembly management did not remit to the Kenya Revenue Authority Pay-as-you-earn (PAYE) taxes collected on personal emoluments paid to staff.

2.1 Failure to Set Aside Gratuity Funds for Members of the Assembly

Although the Assembly had been in existence for two financial years,(2013/14 and 2014/15) the management had as at 30 June 2015 not set aside funds for settling the service gratuity for the Members of the County Assembly when they become due. The accumulated amount of gratuity due as at 30 June 2015 totaled to Kshs.23,924,292.00.

3.0 Procurement of Goods and Services

The Assembly operated without an approved annual procurement plan. In addition, store ledgers were not updated periodically. Further, various goods and services with an aggregate value of Kshs.36,373,034.00 were procured without competitive bidding. These were; catering services costing Kshs.2,440,095.00, various fuel services Kshs.3,809,526.00, motor vehicle insurance services Kshs.2,309,076.00, purchase of motor vehicles Kshs.5,873,000 and motor vehicle repairs amounting to Kshs.895,830, acquisition of computer equipment and other accessories Kshs.9,229,980.00, medical insurance services Kshs.11,815,527.00.

4.0 Unsupported Expenditures

Payments in respect of printing and advertising, and hospitality services amounting to Kshs.755,880.00 and Kshs.2,794,155.00 respectively were not supported with vital documents such as official receipts local service orders, invoices, attendance lists and letters inviting participants to meetings and workshops cited. As a result, it was not possible to confirm the validity of expenditure.

5.0 Irregular Payment of Facilitation Allowances

Verification of payment vouchers and related schedules revealed that the Assembly paid facilitation allowances to MCAs and staff amounting to Kshs.8,852,500 during the year under review. However, the payments were not among those allowed in the approved allowances list and therefore the validity of the expenditure could not be confirmed.

6.0 Irregular Advance Deposits

A sum of Kshs.2,200,655.00 was paid to a local hotel for conference and day seminars for the period between July and December 2014. The management could not explain what occasioned the deposit. However, no evidence was presented to confirm that the services paid for were indeed offered by the hotel. A statement issued by the hotel indicated that only Kshs.49,135 had been spent as at 30 June 2015 thus leaving a balance of Kshs.2,151,520.00 with the hotel. . However, no explanation was given on how the sum of Kshs.49,135 was spent.

7.0 Unbudgeted for Foreign Travel Expenditure

The County Assembly incurred a total of Kshs.29,533,596.00 on foreign travel by Members of the County Assembly (MCAs) even though the expenditure had not been provided for in the budget contrary to government financial regulations. In addition, expenditures in respect of foreign travel (Singapore, Tanzania and Uganda) catered for several officers who were not employees of the Assembly.

8.0 Irregularities in Operations of the Car and Mortgage Fund

The Assembly's Car and Mortgage fund was set up in the year under review. However, proper management controls were not established before the Fund was operationalized. Further, securities for the loans advanced to MCAs during the year were not surrendered to the management. In addition, terms and conditions for repayment of loans disbursed from the Fund were not stated with clarity and when stated were not adhered to. Further, the loans were disbursed to successful loan applicants in cash and not to the asset vendors as expected.

In some instances, duly completed and transfer deeds signed by borrowers and letters of authorizing the Assembly to sell the respective assets in case of default in loan repayment were not submitted to the Assembly. Also, logbooks and titles for properties acquired by borrowers were not surrendered to the Assembly. Several withdrawals

totaling to Kshs.59,300,527.00 were made irregularly from the fund to finance recurrent expenses Also financial statements for the Fund were not submitted to the Office of the Auditor- General for audit by 30 September, 2015 as required under the Public Audit Act 2003.

9.0 Internal Controls and Governance Structure

The Assembly had, by the time the audit was carried out, not developed and implemented a risk management framework and policy to guide the achievement of strategic goals and objectives. Also missing was an approved human resource policy and procedures manual, approved staff establishment, job descriptions; and an organizational chart defining the operational structure and reporting lines for staff of the Assembly.

Similarly, the Assembly did not maintain an updated fixed asset register with descriptions of the assets, serial numbers, and value at purchase, depreciation value for the year, condition, current value and location for its fixed assets. Also title documents for all land parcels owned by the Assembly were also not presented for audit.

10.0 Pending Bills

Review of expenditure records revealed that the Assembly had outstanding bills amounting to Kshs.115,616,024.75 in respect of purchase of furniture, renovations at the County Assembly, hotel accommodation and tax arrears to the Kenya Revenue Authority (KRA) among others.

The management has not explained why the Assembly incurred debts in spite of its budgetary provisions and why it failed to manage its financial affairs prudently by only those projects and activities it had budgeted for.

11.0 Irregularities on Development Expenditure

The County Assembly management procured various works totaling Kshs.93,115,668 in value without involving the Tender Committee in the evaluation and award of the respective tenders. Single-sourcing method of procurement was used for remodeling works and construction of a boundary wall at a cost of Kshs.34,645,265.00 and renovation works at Kshs.35,487,035.00, consultancy services on renovation, remodeling and boundary wall for the Assembly totaling to Kshs.14,929,200.00 and finally, renovation of Assembly chambers at a cost of Kshs.8,054,168.00 in which instance no procurement records were presented for audit verification.

12.0 Long Outstanding Imprests

Review of staff imprest records revealed that imprests totaling Kshs.1,342,431.75 issued to various Officers had not been surrendered as at 30 June 2015 as required under government financial regulations. The balance of the outstanding imprests slightly reduced to Kshs.878,557.00 as at 30 September 2014.

Conclusion

These matters clearly indicate that the County Assembly still faced several challenges in the second year of its operations. The setting of structures, governance systems and staffing has taken too long to complete.

The County Assembly management should adhere to the provisions of the Public Financial Management Act, 2012, Procurement and Disposals Act, 2005, Procurement and Disposals Regulations, 2006 and the Constitution in its financial operations to enhance service delivery to the residents of Vihiga County. Further, the management should assume full control of functions, enhance expenditure and other financial controls, and build capacity of staff for effective accountability of resources.

FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

15 September 2016

DETAILED AUDIT FINDINGS

1.0 Budgetary Control and Performance

The audit revealed that during the year under review, expenditure incurred by the Assembly did not follow budgetary line/Item allocations but was instead centralized under the Assembly operation account. As a result, monies were drawn from any line item without regard to the budget thus resulting in the misallocations shown in **Appendix I** of this report.

Out of the total development budget amounting to Kshs.225,000,000.00, only Kshs.14,800,000.00 was spent thus resulting to a low absorption rate of 6.5%. Further, out of the total recurrent budget of Kshs.295,000,000.00 the actual expenditure was Kshs.520,555,769.00 thus resulting to an unexplained over-expenditure of Kshs.225,555,796.00 or 176%.

Recommendations

(i) The County Assembly management should comply with the budget approved by the County Assembly and ceilings set by the Commission for Revenue Allocation.

(ii) In order to deliver expected public services to the residents of Vihiga County, the management should improve its development budget absorption rate and incur operational expenditures as provided in the approved recurrent budget.

2.0 Personnel Costs

2.1 Improper Expenditure on Mileage Allowances for the Members of County Assembly

Expenditure records indicated that Members of the County Assembly (MCAs) were each paid maximum monthly mileage of Kshs.39,528 or an aggregate of Kshs.18,499,104 for the Assembly during the financial year under review as analyzed in **Appendix II** of this report. The payments contravened instructions issued by the Salary and Remuneration Commission (SRC) that MCAs claim mileage on the basis of distance travelled to their respective areas of representation.

Recommendation

The County Assembly management should;

i. recover any invalid mileage claim allowances paid to Members of the County Assembly, and;

ii. pay all future mileage claims only after confirming actual distances covered by claimants.

2.2 Unsupported Leave Allowance Payments

In the month of December 2014, the Assembly incurred expenditure totaling to Kshs.1,142,741.20 on leave allowance payments. However, details on the beneficiaries and their respective entitlements were not presented for audit verification and as a result the validity and accuracy of the payments could not be verified.

Recommendations

The County Assembly management should;

i recover unsupported/irregular allowance payments from the respective payees;

ii compel the Officers who authorized the unsupported payments to account for the expenditures,.

iii only approve payments against relevant regulations;

2.3 Failure to establish Assembly Service Gratuity Fund

Examination of personnel records and interviews with Assembly managers revealed that the Assembly had not set aside funds to finance service gratuity for the Members. For the two years of the Assembly's existence to 30 June 2015, the gratuities due to Members of the County Assembly had accumulated to Kshs.23,924,292 as detailed in **Appendix III** of this report

Recommendations

The County Assembly management should;

i establish a service gratuity fund and allocate sufficient funds to enable the Assembly meet service gratuity obligations owed to its members;

ii Open a bank account for the fund separate from other accounts established for the Assembly.

2.4 Undisclosed Salary Arrears

Review of personnel records revealed that at the end of the financial year, the Assembly had not paid newly recruited staff salary arrears totaling to Kshs.33,415,633.00 as detailed in **Appendix IV** of this report. This was in spite of a

Court order directing that the arrears of salaries and benefits be paid without delay. Furthermore, the arrears were not included in the County Assembly's pending bills list.

Recommendation

The County Assembly management should disclose the salary arrears in the financial statements and set aside funds in the budget for their payment.

2.5 Irregular Payments of Salary Benefits and Allowances

Personal allowances amounting to Kshs.161,856.00 and Kshs.118,938.00 were paid under salaries in the month of September and October 2014 respectively to security(Administration Police)personnel. The payments were designated as 'top-up' allowances. The terms and conditions under which the policemen were engaged by the Assembly were not presented for audit review and therefore it was not possible to confirm the validity and accuracy of the expenditure totaling to Kshs.280,794.

Furthermore, payroll records revealed that, payments totaling to Kshs.995,870.00 were made to individuals who were not employees of the County Assembly as analyzed in **Appendix V** of this report. No explanation has been provided for the payments.

Recommendations

i The management should recover the irregular payments from the payees or the Accounting Officer be surcharged for the total amount.

ii The County Assembly Service Board (CASB) should make and publish an approved staff establishment with defined terms and conditions of service.

2.6 Irregular Payment of Salary Arrears

A sum of Kshs.4,882,791.00 (analyzed in **Appendix VI** of this report) was paid to Vihiga County Assembly staff in respect of salary arrears on 19 August, 2014 vide cheque number 000331. The sum comprised of gross salary, leave, extraneous and responsibility allowance arrears. No evidence was presented to show how the arrears of salaries and benefits arose and as a result it was not possible to verify their validity

Recommendation

In the absence of evidence confirming their validity, the salary arrear payments totaling to Kshs.4,882,791 should be recovered from the payees.

2.7 Unremitted PAYE Deductions

Pay-As-You Earn (PAYE) taxes totaling to Kshs.2,577,731.00 deducted from salary arrears paid to staff were not remitted on time to the Commissioner of Income Tax as required by law. The outstanding taxes are analyzed in Appendix VII of this report. The Assembly management has by failing to remit taxes to the authorities set a bad

example for other public and private organizations, and in addition risks having to pay tax penalties due on delayed remittances.

Recommendation

To avoid non-compliance costs and conform to the law, the management of the Assembly should promptly remit taxes to the authorities.

3.0 Procurement System

3.1 Procurement of Goods and Services not in the Annual Procurement Plan

Various goods, services and works were procured within the financial year without an approved annual procurement plan as required under government procurement regulations

Recommendation

The procurement unit should prepare a consolidated annual procurement plan and procure all goods and services through the plan and the budget approved by the County Assembly e plan.

3.2 Unaccounted for Stores

On October 142015 the Assembly procured tyres costing Kshs.541,565.20 vide cheque No. 365. Stores records indicated that the tyres were received in the stores. However, the tyres were not in store during the audit verification and there was no record of their issue for use by the transport section. Furthermore, the old tyres that the new ones replaced were not presented for audit verification. In view of the missing records and information, it was not possible to confirm that the tyres costing Kshs.541,565 were received in store and eventually used on the Assembly's vehicles.

Recommendations

The Count Assembly management should;

i. Account for the tyres bought at a cost of Kshs.541,565 or the officers involved in the purchase be sanctioned and surcharged for the amount.

ii. Maintain all relevant stores records and update these periodically.

3.3 Irregular Procurement of Various Goods and Services

The Assembly purchased goods and services valued at Kshs.40,821,562 irregularly as detailed below:

3.3.1 Catering Services

A total of Kshs.2,440,095.00 was paid to hotels that offered catering services to Members of the County Assembly as analyzed in **Appendix VIII** of this report. However, there was no evidence to show how the hotels were identified and how the rates charged were arrived at. Further, the hotels were not among those included in the list of the suppliers pre-qualified by the Assembly management. In the circumstances, it was not possible to confirm whether prices charged by the hotels were fair and competitive.

3.3.2 Fuel Services

Expenditure records also indicated that fuel worth Kshs.3,809,526.00 was purchased through cash without following the prescribed procurement procedures. Further, payments totaling Kshs.101,520.00 were made for fuel used by vehicles not owned by the County Assembly of Vihiga. Details on the purchases are highlighted in **Appendix IX** of this report. No reasons were provided for the payments.

3.3.3 Insurance Services

An insurance brokerage firm, was hired by the Assembly and paid Kshs.2,309,076.00 to provide insurance services for the Assembly's motor vehicles. No other firm was invited to bid for the services and therefore it was not clear how the insurance firm was identified and the contract value arrived at. Further, motor vehicle' valuation reports were not presented for audit verification and therefore it was not possible to confirm how the values of the premiums were arrived at.

3.3.4 Purchase of Motor Vehicle (KBZ 955D)

The Assembly incurred Kshs.5,873,000.00 on purchase of a motor vehicle from a private firm at a cost of Kshs.5,873,000.00 without inviting competitive bids as required under Public Procurement Regulations 2006. In addition, vehicle's specifications and a requisition were issued by the user department before the purchase was initiated. Further, no evidence was presented to show that the procurement department participated in identifying the supplier. Further, the original logbook was not presented for audit review and as a result, it was not possible to confirm that the vehicle bought at Kshs.5,873,000 was registered in the name of the Assembly.

3.3.5 Repair of Motor Vehicles (KBZ 955D)

Transport and expenditure records indicated that motor vehicle repair services costing Kshs.895,830 were procured without competitive bidding. Payment for the services was done through payment voucher No 422 of 4 December 2014.In addition, no inspection reports were raised before and after the repairs and as a result it was not possible to confirm the true value of the repair work done, or whether indeed any work was done on the vehicle purchased during the year at a cost of Kshs5,873,000.00. .

3.3.6 Computer Equipment and Other Accessories

Expenditure records further indicated that payments totaling to Kshs.9,229,980.00 were made to various suppliers in respect of supply of computers, cameras, ink tonners, antivirus software and furniture as detailed in **Appendix X** of this report. However, the expenditure was incurred in total disregard to procurement regulations as no competitive bids were invited before the suppliers were identified. In addition, there was no evidence to show that the circumstances prevailing at the time the purchase was made called for use of alternative procurement methods.

3.3.7 Medical Insurance Services

Examination of records on insurance services expenditure incurred during the year under review revealed that the Assembly procured medical insurance services through a broker at a cost of Kshs.11,815,527.00. However, it was not possible to ascertain the how the broker was identified to supply the services as records on the procurement method applied were not presented for audit review. Further, policy documents and receipts from the underwriter were not presented for audit and as a result, it was not possible to confirm the nature and legal conditions under which the policy was issued. In addition, there was no evidence to show that the broker was registered as an agent of the contracted underwriter (CIC) and therefore, the validity of the policy could not be confirmed.

Recommendations

The County Assembly management should;

i. Account for the expenditure totaling to Kshs.11,815,527.00 otherwise recover the amount from the Officers responsible for the payments.

ii. Adhere to procurement laws and regulations when purchasing goods and services.

4.0 Unsupported Expenditures

4.1 Printing and Advertising

Expenditure on advertising and printing amounting to Kshs.755,880.00 was not supported with relevant documents from the advertising agencies. Further, the payees shown on the vouchers were individuals and not the corporate firms cited in in the respective procurement records. As a result of these discrepancies, it was not possible to confirm the validity of the expenditure. Details on the payments are shown in **Appendix XI** of this report.

4.2 Hospitality Services

Payments totaling to Kshs.2,794,155.00 in respect of hospitality services were not supported with relevant documents such as local service orders, invoices, attendance lists and letters to participants invited to attend the meetings cited. As a result, it was

not possible to confirm the occurrence and validity of the expenditures. Details on the payments are shown in **Appendix XII** of this report.

Recommendations

The County Assembly management should;

i Provide sufficient evidence to support the payments totaling to Kshs.2,794,155.00 or;

ii recover all the payments from the payees.

iii Sanction the officers who made the payments for failing to comply with financial regulations.

5.0 Payment of Facilitation Allowance

The Assembly paid facilitation allowances to MCAs and Staff amounting to Kshs.8,852,500 as analyzed in **Appendix XIII** of this report. However under the scheme of service for the County Assembly of Vihiga, no such allowances are allowed. Therefore, the validity of the payments could not be confirmed.

Recommendations

The County Assembly management should;

i Recover the irregular payments from the Officers who made them.

ii Ensure that all allowances paid to staff are allowed by the Salary and Remuneration Commission regulations.

6.0 Irregular Advance Deposits

A sum of Kshs.2,200,655.00 was paid to a local hotel for conference and day seminars for the period between July and December 2014 vide cheque number 453 of 8 January 2015. The County Assembly management did not provide any reason why the money was deposited with the hotel. Further, no evidence was presented to confirm that the services paid for were utilized by the Assembly. A status statement from the hotel indicated that Kshs.2,151,520.00 remained unutilized at the time of the audit. The statement implied that the Assembly had spent a sum of Kshs.49,135 of the deposit. However, it did not explain the items on which the expenditure was incurred.

Recommendations

The County Assembly should;

i. recall the unspent deposit from the hotel and

ii. explain the use of the balance of Kshs.49,135 or recover the amount from the persons who authorized the deposit

7.0 Unbudgeted Foreign Travel Expenditure by Members of the County Assembly

Travel expenditure records indicated that the Assembly spent Kshs.29,533,596.00 on foreign travel for MCAs although it had not budgeted for the expenditures which are highlighted in **Appendix XIV** of this report. A portion of the expenditure (Singapore, Tanzania and Uganda) was incurred on persons who were not bona fide employees of the Assembly. No explanation has been provided for the anomaly.

Recommendations

The County Assembly management should;

i only incur expenditures provided for in the budget .

ii sanction the officer(s) who authorized the unbudgeted expenditures

iii recover funds incurred from officers who are not bona fide employees of the Assembly or the Accounting Officer should take responsibility for the loss.

8.0 Car and Mortgage Fund

During the year under review the County Assembly established a car loan and mortgage fund worth 200,000,000.00. However, loan remittances were disbursed in cash to borrowers and not to the vendors of the assets the borrowers were reported to have bought. Further;

i Duly completed transfer deeds and letters of authority to sell the property in case of default signed by the borrowers were not presented for audit review. Also, log books and land titles for properties acquired under the loan agreements were not retained by the Assembly.

ii There were irregular withdrawals from the fund totaling to Kshs.59,300,527.00.The withdrawn funds were paid to three business firms under unclear circumstances.

The audit also revealed that the management did not submit the Fund's financial statements to the Office of the Auditor-General by 30th September, 2015 for audit as required under the Public Audit Act 2003. No explanation was provided for the omission.

Recommendations

The County Assembly management should;

i. secure the loans and mortgages disbursed by the Fund;

ii. regulate and account for funds borrowed or transferred from the Fund by the management;

iii. recover the irregular withdrawals of Kshs.59,300,527 from the officers responsible for the payments;

iv. prepare and submit financial statements of the fund for audit ;

v. adhere to the fund regulations, policies and procedures in disbursing funds to borrowers.

9.0 Internal Controls and Governance Structure

9.1 Risk management Policy and Framework

The management of the Assembly has not developed and implemented a risk management framework and policy to guide the achievement of strategic goals and objectives of the Assembly as required by National Treasury Circular No 3/2009.The establishment of the risk management framework was expected to enhance oversight and governance.

Recommendation

The County Assembly management should develop and implement a risk management and review framework immediately.

9.2 Internal Control Environment

The following weaknesses were identified in the Assembly's internal control environment:

i. Processed payment vouchers are not examined, itemized, authorized and approved by the Authority –to Incur Expenditure (AIE) holder.

ii. The Information Technology (IT) strategic committee is moribund

iii. An IT strategic plan to support business requirements and ensure spending on IT remains within the approved plans has not been developed.

iv. Lack of training program to build IT capacity.

v. Lack of a formally documented and approved process to manage upgrades and system changes made to all financial / performance information systems.

vi. Backup data was not stored in a secure offsite storage facility but was instead; retained within the Information and Communication Technology office.

vii. Lack of documented and approved user management standards and procedures in the organization.

viii. Lack of documented schedule for routine maintenance for IT infrastructure.

The Assembly risks loss of data integrity and is exposed to fraud if these weaknesses are not addressed.

Recommendation

The County Assembly management should establish proper information technology controls to address system weaknesses and improve accountability and data integrity.

9.3 Human Resource Management

The following weaknesses were observed in human resource operations:

i. No approved human resource policy and procedures manual has been issued.

ii. No authorized staff establishment, job descriptions and an organizational chart to define the operational structure and reporting lines of the entity.

iii. No approved scheme of service for all grades and entitlements.

iv. There are several irregularities/unexplained variations in job-scales.

Recommendations

The County Assembly management should;

i. The County Assembly Service Board should finalize the rationalization process and institute appropriate governance structures and human resource policies including clear policies and guidelines on engagement of casual and temporary staff.

ii. Develop and implement an approved scheme of service for staff.

9.4 Poor Asset Management

The County Assembly did not maintain an updated fixed asset register showing asset descriptions, serial numbers, and value at purchase, depreciation value for the year, condition, current value and locations. Further, title documents for all the land parcels owned by the Assembly were not presented for audit verification.

Recommendations

i. The County management should maintain an updated asset register that is accurate and complete and;

ii. Obtain from relevant authorities ownership documents for all assets owned by the Assembly.

10.0 Pending Bills

Analysis of expenditure records revealed that Vihiga County Assembly had pending bills amounting to Ksh.115,616,024.75 in respect of furniture, renovations at the County Assembly, hotel accommodation and tax arrears owed to the Kenya Revenue Authority (KRA) ,among others, as indicated in **Appendix XV** of this report.

Recommendation

The County Assembly management should;

(i) Implement the budget as approved by the County Assembly and always seek authority from the Assembly before diverting funds to other uses.

(ii) Only incur expenditure against available funds budgeted under the respective items.

11.0 Irregularities on Development Expenditure

11.1 Remodeling Works and Boundary Wall at the Vihiga County Assembly

A firm was contracted to carry out remodeling works and erect a boundary wall to the Assembly building at a contract sum of Kshs.34,645,265.00. However, procurement regulations were not adhered to as:

i. the Tender Committee was not involved in the award process;

ii. the contractor was not registered with the National Construction Authority(NCA) and;

iii. single-sourcing method was used instead of open-tendering to identify the contractor

In addition, there were irregularities in the project proposal, approval and design stages of the as project as technical drawings and Bills of Quantities (BQs) were not prepared by the relevant technical departments (i.e. County Works Office). They were prepared by the consultant but not certified by the County Works Office as required. Also, an Environmental Impact Assessment report from the National Environmental Authority (NEMA) and a detailed design report were not presented for audit review. Further, the

contract was varied upwards by 61% of the original cost and in addition, payments were made in respect of works certificates valued at Kshs.2,961,640.00 but the reported works were not executed. Details on the payments are highlighted in **Appendix XVI** of this report.

11.2 Renovation Works at the Assembly

During the year under review, the management contracted a construction firm to carry out renovation works at the Assembly at a cost of Kshs.35,487,035.00. The firm was paid a total of Kshs.35,268,277.00 for work done. However, Public Procurement Regulations were not adhered to in the sourcing, award and, execution of the contract. For example, the tender committee was not involved in the award process; the contractor was not registered with the National Construction Authority (NCA) as required; direct method (single sourcing) was used instead of open tendering to identify the contractor; and technical drawings and Bills of Quantities (BQs) to define user requirements were not prepared before the award of the tender.

Other notable irregularities in the project proposal, approval and design included lack of an Environmental Impact Assessment Report certified by the National Environmental Management Authority, and the absence of a project technical drawings and BQs approved by the County Works Officer, and the final detailed design report.

In addition, works valued at Kshs.3,835,730 (shown in **Appendix XVII** of this report) were certified and paid but were not part of the contract for the renovation of the Assembly. Further, variations were made in the works as highlighted below:

i. Use of Box Profile gauge 28 roof sheeting instead of IT 5 gauge 26 roof sheeting;

ii. Use of 3mm instead of 6mm Thick Clear Sheet Glass on all windows;

iii. Overstated quantities.

11.3 Consultancy Services on Renovation, Remodeling and Boundary Wall Works

Further examination of expenditure records revealed that the County Assembly entered into a contract with an architectural firm for consultancy Services on renovation, remodeling and boundary wall works at a cost of Kshs.14,929,220. However, the following omissions and irregularities were noted in relation to the contract: There was no evidence of competitive bidding; the tender committee was not involved in the award process and the contractor was not registered with the National Construction Authority as required.

Further, the consultant did not deliver some of the services that he was contracted to supply. These included the feasibility study report, (including the technical design) ,site investigation report, environmental impact assessment(EIA) report, geo-technical report; outline proposal report(including technical drawings); scheme design report

(preliminary design report);draft detail design report; final detail design report; design liaison report; tender report and monthly progress reports.

In addition, several contract variations were made including changing BQ specifications from MDF roof ceiling to cheaper and less durable PVC and overstating the face value of the variations. At the time of the audit, some of the PVC ceiling had broken off the roof.

These deficiencies have raised doubts on the credibility of the consultant and enhanced risk of the County Assembly not obtaining value-for-money from the consultancy contract and the renovation works valued at Kshs.14,929,220

11.4 Renovation of Assembly Chambers

During the year under review, the County Assembly entered into a contract for the renovation of Assembly Chambers at a cost of Kshs.8,054,168. However, vital procurement records such as the contract agreement, project appraisal documents (bills of quantities and drawings) and project status report were not presented for audit review. Also, there was no evidence to show that the Tender Committee and the Works Office were involved in the project.

The Assembly risks delay in delivery of project outcomes on account of management deficiencies; loss of funds from payments made for work not done; and override of procurement controls and procedures.

Recommendations

i. The County management should; adhere to Procurement laws and regulations when sourcing for contractors.

ii. Delivery and implementation of capital projects should be done according to approved design and Bill of Quantities and the Accounting Officer held personally liable for any irregular payments made.

iii. The Accounting Officer should be held liable and be sanctioned for the irregularities in the contract.

12.0 Long Outstanding Imprest

Impress records revealed that balances totaling Kshs.1,342,431.75 had not been surrendered as at 30 June 2015 as detailed in **Appendix XVIII** of this report. Out of this balance, imprests totaling to Kshs.878,557 were issued in 2014.

Recommendations

(i) The County Assembly management should compel the respective officers to surrender the outstanding imprests totaling to Kshs.1,342,431.75.

(ii) Put in place mechanisms that compel imprest holders to surrender their balances in due time

Conclusion

The findings of this audit clearly show that the County Assembly is facing several managerial challenges two years after it was inaugurated. The setting up of organizational structures, systems of governance and staffing has taken too long to complete.

The County Assembly management should assume full control of its functions, by strengthening internal control mechanisms, enhancing expenditure control and building capacity of staff for proper and effective public accountability of resources put at its disposal.

Further, the County Assembly management should adhere to the Public Financial Management Act, 2012, Procurement and Disposals Act, 2005, Procurement and Disposals Regulations, 2006 and the Constitution in its financial and other operations in order to enhance effective service delivery to the residents of Vihiga County.

FCPA Edward R. O. Ouko, CBS
AUDTOR-GENERAL

Nairobi

15 September 2016