REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF COUNTY GOVERNMENT OF VIHIGA

FOR THE YEAR ENDED 30 JUNE 2015

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OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON COUNTY GOVERNMENT OF VIHIGA FOR THE YEAR ENDED 30 JUNE 2015

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of County Government of Vihiga set out on pages 7 to 42, which comprise the statement of Assets as at 30 June 2015, and the statement of receipts and payments, summary statement of appropriation: revenue and development combined, statement of cash flows and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 8 of the Public Audit Act, 2003.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 4 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 9 of the Public Audit Act, 2003 in compliance with provisions of Article 229 of the Constitution. The audit was conducted in accordance with International Standards of Supreme Auditing Institutions (ISSAIs). Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the

financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County Government's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, I am not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

1. Accuracy and completeness of the financial statements in IFMIS

The financial statements were prepared off IFMIS and as a result payments totaling Kshs. 432,400,820.65 not posted in the IFMIS system were reported manually. Further, the revenue module on IFMIS was not activated and in use during the year leading to all receipts of Kshs 4,071,350,000.00 not captured. Due to none activation and usage of the revenue module in IFMIS, all balances in the statement of assets were subsequently not captured thus rendering IFMIS not reliable when preparing the financials statements. In addition, the financial are not consolidated for both the County Executive and County Assembly as required.

In the circumstances the accuracy and completeness of the financial statements for the year ended 30 June 2015 could not be confirmed.

2. Fixed Assets

The County Government did not maintain an updated fixed asset register consisting of the fixed assets' description, serial numbers, and value at purchase, depreciation value for the year, condition, current value and location for its fixed assets valued at Kshs. 1,441,400,849.86 as at 30 June 2015.

Further, ownership documents for all the land parcels owned by the County Executive valued at Kshs.44,176,234.00 were not provided for audit verification. In addition, no evidence of the defunct local authorities fixed assets having been transferred and incorporated into the County Government assets.

Consequently, the accuracy, valuation existence, ownership and completeness of the fixed assets as reflected in Annex 4 to the financial statements could not be ascertained as at 30 June 2015.

3. Cash and Cash Equivalents

During the year under review, the statements of assets reflects cash and cash equivalents balances of Kshs.37,152,212 as at 30 June 2015. The County had 52 bank

accounts for both the Executive and Assembly. Further, Government Wards Fund bank accounts were the highest at 43 out of 52 total number of bank accounts.

Nature of Bank Accounts	No. of Banks	2014 - 2015 Kshs	2013 - 2014 Kshs
Revenue Account	2	41,173,047.25	360,155,517.00
Development Account	1	138,326,125.65	248,506,169.85
Collection Account	1	2,016,311.70	1,015,855.00
Imprest Account	2	3,771,427.50	1,731,439.00
County Assembly	2	46,941,797.75	25,829,138.00
Retention Account	1	410,839.85	-
Ward Funds A/C	43	3,809,260.90	-
TOTAL	**52**	**236,448,810.60**	**637,238,118.85**

The County Executive has not justified the operation of 52 bank accounts which results in unnecessary bank charges.

4. Retention Account Balance

The retention account cash book balance of Kshs.7,572,095.15 as at 30 June 2015 differs with the reported balance of Kshs.60,385,378.52 in the financial statements resulting in a difference of Kshs.52,329,926.17 which have been incurred in other operations irregularly and have not been explained or justified. No reason has been given for this anomaly.

5. Long Outstanding Imprests

The financial statements as at 30 June 2015 (Note 23) reflect total outstanding imprest of Kshs.85,813,878.00. However, imprest totaling Ksh.25,578,696.00 for the County executive have remained long outstanding and unaccounted for as at 30 November 2015. Further, County Assembly had imprest outstanding of Kshs.1,342,432 with Kshs.878,557 remaining due since September 2014.

In the circumstances, the recoverability of the long outstanding imprests could not be confirmed.

6. Unsupported Expenditure

Payment vouchers in relation to Hospitality and Fuel amounting to Kshs.7,139,546.00 and Kshs.3,321,212.50 respectively were not made available for audit verification.. As a result, the propriety of the expenditure of Kshs.10,460,758.50 could not be confirmed.

7. Personnel Costs

Compensation of employee expenditure of Kshs.1,375,800,082 as disclosed in the financial statement differed with the IPPD payroll cost of Kshs.1,156,140.804 resulting to an unreconciled variance of Kshs.219,659,279 as at 30 June 2015.

Consequently, the accuracy and propriety of the personnel costs could be confirmed as at 30 June 2015.

8. Pending bills

The County pending bills stood at Kshs.959,407,189.92 as shown in Note 26.1 and 26.3 to the financial statements. Further, the balance included unremitted statutory deduction of Kshs.42,991,399.44. In addition, the County Assembly had pending bills of Kshs.115,616,025. The aunthencity of the total pending bills could not be confirmed.

9. Irregular Personnel Costs

During the year under review, members of the County Assembly were each paid maximum monthly flat mileage of Kshs.39,538.00 amounting to Kshs.18,499,104.00. This contravenes the Salaries and Remuneration Commission's guidelines circular where the actual monthly mileage should be claimed by each individual MCA to their respective area of representation.

Further, leave allowances of Kshs.1,142,741.20 for the month of December 2014 and arrears totaling to Kshs.4,882,791 were not supported and therefore not verified.

The Assembly had not set aside an accumulated amount of Kshs.23,924,292.00 for the purpose of settling the service gratuity for the Members of the County Assembly for the last two financial years. A total of Kshs.1,276,644 was paid as salaries to non-staffs of the Assembly who were not properly engaged as external security personnel. PAYE was not remitted on time.

In the circumstances, the propriety of the County Assembly personnel costs totaling Kshs.49,725,572.20 could not be confirmed.

10. Procurement of Goods and Services

The Assembly operated without an approved annual procurement plan, store ledgers were not periodically updated, procurement of goods and services such as catering services of Kshs.2,440,095.00, various fuel services of Kshs.3,809,526.00, motor vehicle insurance services Kshs.2,309,076.00, purchase of motor vehicles Ksh.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 totalling Kshs.36,373,034.00 were done without competitive bidding and quotations.

In the circumstances, the County Assembly did not obtain value for money in the transactions totalling Kshs.36,373,034 for the year ended 30 June 2015.

11. Unsupported Expenditures

The County Assembly payments in respect of printing and advertising and hospitality services amounting to Kshs.755,880.00 and Kssh.2,794,155.00 respectively were not properly supported with official receipts from the advertising companies and local service

orders, invoices, attendance lists and invitations of participants to the meetings for hospitality industry.

As a result, the propriety of the total expenditure of Kshs.3,550,035 could not be ascertained as at 30 June 2015.

12. Irregular Payment of Facilitation Allowances

Verification of payment vouchers and related schedules revealed that the County Assembly paid facilitation allowance to MCAs and staff amounting to Kshs.8,852,500. However, no such allowances exists under the approved allowances hence the basis of such expenditure could not be confirmed.

In the circumstances, the propriety of the expenditure as a proper charge on public funds could not be ascertained as at 30 June 2015.

13. Irregular Advance Deposits

An amount of Kshs.2,200,655.00 was paid to an Hotel for conference and day seminars for the period between July and December 2014. However, no evidence was availed to confirm that the services paid for were offered. Further, the Assembly statement from the hotel indicated that an amount of Kshs.2,151,520.00 remained un-utilized at the time of audit. Further, the management could not explain what occasioned the deposit.
No reason has been given for failure to reconcile the unutilized funds as at 30 June 2015 and confirm the propriety of the expenditure of Kshs.2,200,655.

14. Foreign Travel Expenditure

The County Assembly incurred a total of Kshs.29,533,596.00 on MCAs foreign travels study tours without the necessary budgetary provision. Further, expenditures in respect of foreign travel were made to cater for some officers who were not bona fide employees of the Assembly for Singapore, Tanzania and Uganda tours.
In the circumstances, it has not been possible to confirm the legality and validity of the expenditure of Kshs.29,533,596 as a proper charge to public funds.

15. Irregularities in Car and Mortgage Fund

The Assembly's car and mortgage Fund was set up in the year under review. However, no proper control in the management of the Fund was set up before operationalization. Securities for the loans were not provided as required.

Terms and Conditions of repayment were not clearly spelt out and adhered to. Money was disbursed in cash to applicants instead of the vendor. Log books and titles for properties acquired under the fund were not duly executed.

Cash was disbursed where there was lack of duly completed and signed transfer deeds by the borrower and a letter of authority to sell the property in case of default by loanees.

Log books and titles for properties acquired under fund agreement were not surrendered and kept by the County Assembly management as required.

Funds amounting to Kshs.59,300,527.00 were irregularly withdrawn to finance operation of recurrent expenses and have never been repaid back.

Financial statements for the Fund for 2014/2015 were not submitted for audit review by 30 September 2015 as required.

In view of the foregoing, the car and mortgage loan funds are not managed in accordance with financial regulations.

16. Procurement Irregularities on Development Expenditure

The County Assembly procured various works amounting to Kshs.93,115,668 without involvement of the tender committee in award process. Single sourcing method of procurement instead of open tendering was used for all the contracts as shown below:-

Contracts Works	Cost (Kshs.)	Issues
Remodeling works and Boundary Construction	34,645,265.00	Use of Direct procurement no supporting documents
Renovation works	35,485,035.00	Use of Direct procurement no supporting documents
Consultancy Services on Remodeling And Renovation works	14,929,200.00	Use of Direct procurement no supporting documents
Assembly Chambers Renovation	8,054,168.00	Use of direct procurement No supporting documents
Total	**93,115,668.00**	

Further, no procurement records were made available for audit verification.
In the circumstances, the propriety and value for money of the development expenditure of Kshs.93,115,668 could not be ascertained.

17.0 Budget Control and Performance

17.1 Revenue Performance

The County's Revenue was budgeted at Kshs.4,052,897,249 against actual receipt of Kshs.4,701,035,000 as shown below:-

Item	Budgeted Amounts 2014/15	Actual Amounts	Variance(Kshs)	Variance (%)
Exchequer Releases	3,378,093,964	3,378,093,964	-	0%
Conditional Grants	410,456,808	565,531,199	155,074,391	38%
Grants from multinational Donors-DANIDA	23,698,224	11,790,000	(11,908,224)	-50%
Local Revenues	240,648,253	115,619,837	(125,028,416)	-52%
Total Revenue	4,052,897,249	4,071,035,000	18,137,751	0%

Total local revenue collection target of Kshs.240,648,253.00 was not achieved by 52% or 125,028,416. Furthermore, revenues from the devolved functions were under achieved by Kshs.82,627,525.00 or 70% while local revenue was under achieved by Kshs.42,400,891.00 or 35% hence inadequate implementation of budgetary procedures.

Description	Budgeted Amounts 2014/15 Kshs.	Actual Amounts Kshs.	Variance (Kshs)	Variance (%)
Local Sources Revenues				
Single Business Permits	48,276,888	18,161,680	(30,115,208)	-62%
Poll rates	3,660,532	990,751	(2,669,781)	-73%
Plot Rental Fees	1,722,270	237,788	(1,484,482)	-86%
Market Fees	18,240,288	17,747,534	(492,754)	-3%
Bus park fees	40,794,468	37,552,782	(3,241,686)	-8%
Plot/Stall Rent	1,722,270	1,608,675	(113,595)	-7%
Land Rates	3,660,532	182,643	(3,477,889)	-95%
Plan approval	1,019,040	600,084	(418,956)	-41%
Registration of Groups	370,920	272,475	(98,445)	-27%
Ground rent	59,400	28,500	(30,900)	-52%
Cess fees	213,840	278,300	64,460	30%
Hire of Tipper	409,200	207,840	(201,360)	-49%
House rent	775,381	412,200	(363,181)	-47%
Local rate	467,082	447,700	(19,382)	-4%
Other fees	714,582	976,850	262,268	37%
Sub total	122,106,693	79,705,802	(42,400,891)	-35%
Revenue from Devolved Functions				
Agriculture, livestock, Fisheries and Co-op development	1,891,560	2,022,421	130,861	7%
Industrialization, Trade & Tourism, Environment	1,650,000	2,273,062	623,062	38%
Education, Science ,Sports and Youth Affairs	1,750,000	287,728	(1,462,272)	-84%
Description	**Budgeted Amounts 2014/15**	**Actual Amounts**	**Variance Kshs.**	**Variance (%)**
Health	99,000,000	31,136,224	(67,863,776)	-69%
Transport & Infrastructure	3,000,000	-	(3,000,000)	-100%
Lands, Housing, Physical Planning	1,000,000	194,600	(805,400)	-81%
Public Service and Administration	10,250,000	-	(10,250,000)	-100%
Sub total	118,541,560	35,914,035	(82,627,525)	-70%
Grand Total Revenue	**240,648,253**	**115,619,837**	**(125,028,416)**	**-52%**

The overall under performance in revenue collection of 52% has not been explained.

17.2 Expenditure

The County failed to adhere to the approved budget ceilings as material excess/under performances were observed. Further, the budget and appropriation bill was passed late on 25 November 2014 contrary to Section 131 of Public Finance Management Act, 2012 with material changes. Planned projects were not fully implemented as budgeted due to financial constraints. In addition, the County Integrated Development Plan (CIDP) was not linked and referenced to the approved development budget.

	Budgeted Amounts 2014/15 (Kshs.)	Actual Amounts 2014/2015 (Kshs.)	Variance (Kshs)	Variance (%)
Recurrent expenditure	2,542,206,592	2,629,655,352	(87,448,760)	-3%
Development Expenditure	2,221,231,045	1,420,534,914	800,696,131	36%
Total	**4,763,437,637**	**4,050,190,266**	**713,247,371**	**15%**

The overall over expenditure in recurrent budget of 3% and under expenditure of 36% has not been justified.

17.3 Governor's Expenditure

The Governor's office spent Kshs.414,542,125.00 against a budget of Kshs.468,415,907.00 representing an under expenditure of Kshs.53,873,782 or 12% as shown in the table below: Further, the capital expenditure was underspent by Kshs.53,583,557 or 110%.

Description	Budgeted amount 2014/2015 (Kshs.)	Actual Amounts (Kshs.)	Variance (Kshs)	Variance (%)
Recurrent Expenditure				
Salaries, Wages and Gratuity	130,032,492	129,523,836	508,656	0%
Utilities Supplies and Services	5,640,000	5,536,839	103,161	2%
Travel and Subsistence, and Other Transportation Costs	16,000,000	16,919,810	(919,810)	-6%
Advertising, Awareness and Publicity Campaigns	11,000,000	10,956,036	43,964	0%
Legal Dues/fees, Arbitration and Compensation Payments	8,000,000	7,898,885	101,115	1%
General Office Supplies	1,000,000	973,178	26,822	3%
Specialised Materials	34,800,000	36,487,472	(1,687,472)	-5%

and Supplies				
Fuel Oil and Lubricants	5,000,000	4,234,586	765,414	15%
Routine Maintenance Vehicles and Other Equipment	9,500,000	8,954,408	545,592	6%
Description	**Budgeted Amounts 2014/15 (Kshs.)**	**Actual Amounts (Kshs.)**	**Variance (Kshs)**	**Variance (%)**
Purchase of Property, Equipment	34,550,000	33,747,217	802,783	2%
Sub Total	**255,522,492**	**255,232,267**	**290,225**	0%
Capital Expenditure				
Emergency and Disaster fund	157,893,415	122,751,959	35,141,456	22%
Bursary Fund	5,000,000	2,200,000	2,800,000	56%
Social Economic Fund	50,000,000	34,357,899	15,642,101	31%
Sub Total	**212,893,415**	**159,309,858**	**53,583,557**	**110%**
GRAND TOTAL	**468,415,907**	**414,542,125**	**53,873,782**	**12%**

The Governor's over expenditure in travel and subsistence and purchase of specialized materials and supplies has not been explained. Further, the capital under expenditure of Kshs.53,573,557 or 110% denies the County residents the planned and budgeted services.

17.4 Project Implementation Performance

The County Executive implemented a total of 356 projects/programmes by different ministries and departments during the financial year. However, 59 or 17% of the projects had not started, 129 or 36% of the projects were still on going and only 167 or 47% of the project had been completed as at the time of audit in December 2015.

The department of Transport and Infrastructure had the largest share of 215 projects out of the total of 356 projects while the Department of Lands; Housing & Urban Development had the least five (5) projects. The Department of Agriculture and Health performed dismally at 10% and 19% respectively.

Transport and Infrastructure had the most completed project at 130 or 60% while the Department of Agriculture, Livestock, Fisheries and Cooperative had the least completed projects at 2 or 10% of the total County's completed projects of 167.

Ministries/Departments	**Budgeted projects/programmes**	**Actual/Implemented Projects**			
		Not Started	**Ongoing**	**Completed**	**% of completed projects**
Department of Land, Housing & Urban Development	5		2	1	20%
Department of Industrialization, Trade And Tourism	6	1	3	2	33%
County Health Services	36	14	15	7	19%
Transport and Infrastructure	215	30	55	130	60%

Department of Education, Science And Technology	17	2	11	4	24%
Department of Environment, Water, Natural Resources and Forestry	34	7	20	7	21%
Department of Gender, Culture, Youth, Sports And Children	16	0	6	9	56%
Department of Finance And Economic Planning	7	0	2	5	71%
Department of Agriculture, Livestock, Fisheries And Cooperative	20	3	15	2	10%
TOTAL	**356**	**59**	**129**	**167**	**47%**
% implementation over	**100%**	**17%**	**36%**	**47%**	**47%**

In view of the foregoing, it has not been possible to confirm the reasons for delayed completion of projects and low revenue collection for the year ended 30 June 2015.

17.5 County Assembly Budgetary Performance

Out of the total development budget of the County Assembly of Kshs.225,000,000.00, only Kshs.14,800,000.00 were spent resulting in an absorption rate of 6.5%. Further, the total recurrent budget was Kshs.295,000,000.00 while the actual expenditure was Kshs.520,555,769.00 resulting in an over expenditure of Kshs.225,555,796.00 or 176%. This was occasioned by reallocating of development budget to cater for re-current costs.

In view of the foregoing, the budgetary control mechanisms of the County Assembly appear weak and the planned and promised services were not delivered to the County residents.

18.0 Internal Controls and Governance Structure

The County Government did not establish an internal audit committee as required by Section 155 of the Public Finance Management Act, 2012. Hence, the management has not been able to assess and review the internal controls environment regularly. Further, a risk management framework and policy to guide the achievement of strategic goals and objectives has also not been developed and implemented. In addition, a number of policies and procedures on information technology, Human Resource Management, procurement and stores management, file movement, air travel policy, and line of County assets and County financial operation manual have not been put in place.

19.0 Lack of Insurance Cover

During the year under review no insurance cover for workman's insurance benefits, employee medical scheme and motor vehicles cover was in place. Further, no premium was paid to any insurance company despite the County identifying one. The County Government risks huge payments in case of any liability from staff or loss of motor vehicles.

20.0 Weakness in Internal Control

The Assembly has not developed and implemented a risk management framework and policy to guide the achievement of strategic goals and objectives. An approved human resource policies and procedures manual approved staff establishment, defined job descriptions and organizational chart that clearly defines the operation structure and reporting lines have not been developed.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an opinion. Accordingly, I do not express an opinion on the financial statements.

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

Nairobi

26 September 2016