

# **REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF VIHIGA FOR THE YEAR ENDED 30 JUNE 2017**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of County Assembly of Vihiga set out on pages 1 to 32, which comprise the statement of financial assets and liabilities as at 30 June 2017, and the statement of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, 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 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of County Assembly of Vihiga as at 30 June 2017, and of its performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standard (Cash Basis) and comply the Public Finance Management Act, 2012.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis for Qualified and Other Matter sections of my report, based on the audit procedures performed, I confirm that nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

### **Basis for Qualified Opinion**

#### **1. Inaccuracy of the Statement of Cash Flows**

The cash flow statement was not properly prepared with necessary adjustment for changes in accounts payables and accounts receivables of Kshs.6,273,798 and Kshs.7,198,587 respectively for the financial year under review. Further, the cash and cash equivalents balance of Kshs.7,250,695 at year end differs with Kshs.8,217,859 reported in the statement of financial assets and liabilities. Also, there is a casting error in the net cash flows from operating activities balance of Kshs.29,860,137 instead of Kshs.30,235,245.

In the circumstances, it was not possible to ascertain accuracy of the statement of cash flows.

#### **2. Accounts Receivables**

The accounts receivable balance of Kshs.47,849,838 includes a figure of Kshs.47,662,836 in respect of under receipt of Development Exchequer. It was not clear how the Development Exchequers under receipt of Kshs.47,662,836 has been reported

as part of accounts receivables whereas the financial statements are prepared under IPSAS (Cash Basis) of accounting method.

In the circumstances, accuracy of the accounts receivable balance could not be confirmed.

### **3. Accounts Payables**

It was noted that, contrary to IPSAS (Cash Basis) method of accounting, the accounts payable figure of Kshs.48,817,002 includes an amount of Kshs.31,147,556 in respect of pending bills for supply of goods and services as analyzed in note 15 to the financial statements and annex 1. The practice of reporting pending bills as a line item in the financial statement is an accrual basis of accounting.

In the circumstances, it was not possible to ascertain accuracy on the balance of accounts payable as at 30 June 2017.

### **4. Compensation to Employees**

#### **4.1 Irregular Sitting Allowances**

It was noted that the plenary attendance register had fourteen (14) sessions whereby sixty (60) members who had been closed out of the attendance register and they irregularly added their names, resulting into extra expenditure of Kshs.234,000 in sitting allowances as detailed in the table.

| <b>Date</b> | <b>Session</b> | <b>Irregular Attendance</b> | <b>Rate (Kshs)</b> | <b>Total Amount (Kshs)</b> |
|-------------|----------------|-----------------------------|--------------------|----------------------------|
| 21-Feb-17   | Morning        | 3                           | 3,900              | 11,700                     |
| 07-Mar-17   | Afternoon      | 1                           | 3,900              | 3,900                      |
| 09-Mar-17   | Afternoon      | 1                           | 3,900              | 3,900                      |
| 15-Mar-17   | Morning        | 3                           | 3,900              | 11,700                     |
| 16-Mar-17   | Afternoon      | 16                          | 3,900              | 62,400                     |
| 28-Mar-17   | Afternoon      | 1                           | 3,900              | 3,900                      |
| 26-Apr-17   | Morning        | 3                           | 3,900              | 11,700                     |
| 25-Apr-17   | Afternoon      | 1                           | 3,900              | 3,900                      |
| 26-Apr-17   | Afternoon      | 2                           | 3,900              | 7,800                      |
| 27-Apr-17   | Afternoon      | 4                           | 3,900              | 15,600                     |
| 03-May-17   | Morning        | 6                           | 3,900              | 23,400                     |
| 03-May-17   | Afternoon      | 7                           | 3,900              | 27,300                     |

|              |           |           |       |                |
|--------------|-----------|-----------|-------|----------------|
| 04-May-17    | Afternoon | 5         | 3,900 | 19,500         |
| 05-May-17    | Morning   | 7         | 3,900 | 27,300         |
| <b>Total</b> |           | <b>60</b> |       | <b>234,000</b> |

#### 4.2 Double Allowance

It was noted that sixteen (16) departmental committees with cumulative membership of 179 had 60 concurrent meetings while the plenary was going on with an attendance of almost 99% meaning the sessions involved resulted to double sitting allowances amounting to Kshs.2,983,500 as detailed in the table below.

| <b>Committee</b>      | <b>Sessions</b> | <b>Members</b> | <b>Members Sessions</b> | <b>Amount (Kshs)</b> |
|-----------------------|-----------------|----------------|-------------------------|----------------------|
| 1. Agriculture        | 4               | 9              | 28                      | 156,000              |
| 2. Budget             | 5               | 9              | 35                      | 195,000              |
| 3. Business           | 5               | 21             | 95                      | 429,000              |
| 4. Education          | 5               | 14             | 60                      | 292,500              |
| 5. Env & Water        | 3               | 9              | 21                      | 117,000              |
| 6. Finance            | 4               | 13             | 44                      | 218,400              |
| 7. Health             | 4               | 9              | 28                      | 156,000              |
| 8. Implementation     | 5               | 9              | 35                      | 195,000              |
| 9. Justice            | 5               | 13             | 55                      | 273,000              |
| 10. Labour            | 2               | 9              | 14                      | 78,000               |
| 11. Lands             | 2               | 9              | 14                      | 78,000               |
| 12. Liasion           | 3               | 13             | 33                      | 163,800              |
| 13. Paic              | 1               | 5              | 3                       | 23,400               |
| 14. Public Service    | 5               | 13             | 55                      | 273,000              |
| 15. Trade             | 6               | 11             | 54                      | 280,800              |
| 16. Transport         | 1               | 13             | 11                      | 54,600               |
| <b>Total Sessions</b> | <b>60</b>       | <b>179</b>     | <b>585</b>              | <b>2,983,500</b>     |

#### 4.3 Payments in Excess of SRC Recommended Monthly Ceilings

All the 40 members of the County Assembly were irregularly paid allowances in excess of their Salaries and Remuneration Commission approved monthly sitting allowances of Kshs.124,800 resulting to a cumulative overpayment of Kshs.2,838,900. No reason was provided for failure to adhere to the SRC ceilings.

#### 4.4 Irregular Plenary Sitting Allowance

Five (5) MCAs were paid sitting allowances for Chair and Vice Chair using the Departmental Committee Rates at the plenary for 224 sessions instead of the plenary rates irregularly earning Kshs.1,426,100 instead of Kshs.910,000 resulting into an

overpayment of Kshs.516,000. Also, it was not clear why these members were paid benefits which they are not entitled.

| <b>Member</b>        | <b>Total</b> | <b>Rate Applied</b> | <b>Actual Total</b> | <b>Expected Rate</b> | <b>Expected Total</b> | <b>Loss</b>    |
|----------------------|--------------|---------------------|---------------------|----------------------|-----------------------|----------------|
| Deputy Speaker       | 28           | 6,500               | 182,000             | 5,200                | 145,600               | 36,400         |
| Chair Committee      | 173          | 6,500               | 1,124,500           | 3,900                | 674,700               | 449,800        |
| Vice Chair Committee | 23           | 5,200               | 119,600             | 3,900                | 89,700                | 29,900         |
| <b>Total</b>         | <b>224</b>   |                     | <b>1,426,100</b>    |                      | <b>910,000</b>        | <b>516,100</b> |

#### **4.5 Non-Taxed Employment Benefits**

It was noted that the Assembly Speaker enjoys employment benefits such as; motor vehicle, house and domestic servants which are being taxed in accordance with income tax Act,470. The unrecovered amount during the year under review totaled Kshs.1,206,000. In the circumstances, the County Assembly was in breach of the tax law.[GTI1]  
[RNO2]

#### **5. Use of Goods and Services**

The statement of receipts and payments reflects a figure of Kshs.189,999,737 on Use of Goods and Services. However, a review of supporting documents revealed the following anomalies.

##### **5.1 House Business Sitings**

Included in the use of goods and services figure of Kshs.189,999,737 is an amount of Kshs.435,000 being sitting allowance paid to members of the County Assembly House Business Committee through imprests advanced to the Clerk. No explanation was given for not charging the sitting allowance to correct expenditure vote of compensation of employees.[GTI3]

##### **5.2 Committee on Powers and Privileges**

Included in the use of goods and services figure of Kshs.189,999,737 is an amount of Kshs.616,000 paid to members of the assembly committee of powers and privileges for attending benchmarking visit of the County Assembly of Siaya and the payment is by design charged to use of goods and services instead of compensation of employees.

Also, it was noted that the members were paid per diem for four (4) to attend a one (1) day event in Nairobi and not in Siaya as stated in the documents. No explanation was given for the disparity in the payment voucher details and venue of the event and number of days of per diem.[GTI4]

In the circumstances, it was not possible to ascertain the accuracy of the expenditure of Kshs.189,999,737 incurred in use of goods and services incurred during the year.

## **6. Acquisition of Assets**

### **6.1 Landscaping, Cabro Works and Car Park Project**

The statement of receipts and payment reflects acquisition of assets figure of Kshs.48,205,624 which includes an amount of Kshs.45,228,117 in respect of payment to a local contractor for the construction and Civil Works in landscaping, Cabro Works and Car Park project. However, an audit review of supporting documents revealed the following anomalies;

#### **6.1.1 Delay in Contract Execution**

In May 2016, an agreement to last 12 weeks was entered into between the Vihiga County Assembly and a local contractor for Landscaping, Cabro Works and Car Park at an initial cost of Kshs.52,754,768 with the initial expected completion date being 28 July 2016 but later revised to 30 August 2016. The project had not been completed as at the time audit exercise was concluded, eighty-six (86) weeks after expiry of the contract period.

#### **6.1.2 Interim Certificates of Work Done**

Three interim certificates of work done cumulatively amounting to Kshs.52,754,768, were issued to authorize that the contractor had fully completed all the project works. However, an audit review shows that these certificates were found to be only mere summaries without any linkage to the bills of quantities and therefore did not have any details of the specific works done. As a result, it was not clear how the verification of the work said to have been finished was accepted. No plausible explanation was given for failure to provide details of the specific measured works and link the same to the bills of quantity as required in law.

#### **6.1.3 Unaccounted for Work Done**

Evaluation of ten (10) specific items in the bills of quantities on a sample basis with a quoted price of Kshs.28,560,400 revealed huge discrepancies for the works certified and paid for versus those undertaken as required in the bills of quantities which evaluated to cost Kshs.12,635,725 thereby resulting to a variance of Kshs.15,924,675 representing certified works not done. This exaggeration of the bills of quantities ultimately allowed the contractor to be paid for services not rendered which is a loss to the assembly.

#### **6.1.4 Change in Design**

An audit review of the project documents revealed that the parking design was changed from the envisaged 102 parking spaces to a new design for only 70 motor vehicles. The revised design work and corresponding financial implications, if any was not availed for review.

### **6.1.5 Failure to deduct and remit VAT, Withholding Tax and Retention**

During the year under review, the contractor was paid a total of Kshs.45,228,117 and in the payment vouchers, a total of Kshs.9,105,598 in respect of 10% retention fee, 3% withholding tax and 6% withheld VAT were deducted. However, it was noted that out Kshs.9,105,598 deducted from the contractor, only Kshs.1,422,505 had been remitted to the Kenya Revenue Authority, leaving non-accounted for balance of Kshs.7,683,093.

### **6.1.6 Non-accounted for Project Funds**

Included in the contract sum of Kshs.52,754,768 were prime costs, provisional sums and contingencies all amounting to Kshs.8,006,182. From the bills of quantities document, the provisional sum and contingencies of Kshs.8,006,182 includes; electrical installations of Kshs.1,250,000, professional fees of Kshs.600,000 and contingencies amount of Kshs.4,156,182, all of which have not been explained how they were certified and paid to the contractor.

### **6.2 Supply and Installation of Generator**

Included in the acquisition of assets figure of Kshs.48,205,624 in respect to Acquisition of Assets, is Kshs.2,112,600 spent during the year on Purchase of Specialized Plant, Equipment and Machinery – Generator.

In May 2016, a local company was awarded the tender to supply, install and commission a Standby Generator at contract price of Kshs.2,112,600 but under unclear circumstances, it was not until February 2017 when a formal LPO was raised. The generator was finally delivered in March 2017. However, upon physical verification in March 2018, it was noted that one year down the line, the generator has never been installed or commissioned for use as intended despite the assembly having paid the total amount. Further the contract included dropping of three phase electricity line, and laying the cables to the connection center at a cost of Kshs.562,000 which has equally not been done.

In the circumstances, the propriety, accuracy and completeness of acquisition of assets figure of Kshs.48,205,624 could not be confirmed.

### **7.0 Other Payments**

The statement of receipts and payments reflects against other payments an amount of Kshs.64,560,337. However, an audit review disclosed that Kshs.15,210,427 relates to compensation of employees while the balance of Kshs.49,349,950 was for use of goods and services. It was not clear why these items could not be accounted under the correct account classification. As the accounts stand now, the respective expenditure items for compensation and use of goods and services are understated to the extent of the respective amounts now classified as other payments.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the County Assembly of Vihiga in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance

with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

## Key Audit Matters

Key audit matters are those matters that, in my professional judgments, are of most significance in the audit of the financial statements of the year under review. Except for the matters described in the Basis for Qualified Opinion and Other Matter sections, I have determined that there are no Key Audit Matters to communicate in my report.

## Other Matter

### 1. Budget Performance Analysis

The summary statement of appropriation: recurrent and development combined reflects unexplained variances of over 10% between the current and prior year figures for the following items:

| Item  | Financial statement balances | Prior year actual - 2015/16 | Variance     | Difference between current and prior year actual |
|---|------------------------------|-----------------------------|--------------|--|
|   | Kshs.                        | Kshs.                       | Kshs.        | %  |
| Domestic travel and subsistence                             | 118,031,217                  | 197,168,835                 | (79,137,618) | -40%   |
| Printing, advertising and information supplies and services | 1,744,383                    | 2,969,005                   | (1,224,622)  | -41%   |
| Rentals of produced Assets                                  | 7,960,000                    | 1,784,294                   | 6,175,706    | 346%   |
| Training expenses   | 6,964,406                    | 16,302,850                  | (9,338,444)  | -57%   |
| Hospitality, supplies and services                          | 8,444,331                    | 6,020,909                   | 2,423,422    | 40%  |

Management of utilities, supplies and services may not have been efficiently achieved

### 2. Un Authorised Payments

A review of payment vouchers amounting to Kshs.3,821,860 revealed that they were paid without being authorized by the AIE holder. The propriety and genuineness of these expenditure could not be ascertained

### 3. Procurements not Budgeted for

A review of procurement records shows that goods and services amounting to f Kshs.2,264,000 were made by the County Assembly but they were not budgeted for in the financial year. Procurements not Budgeted for may lead to un planned services and goods being procured which may not be applied prudently effectively and economically for the benefit of the assembly.

### **Responsibilities of Management and Those Charged with Governance 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.

In preparing the financial statements, management is responsible for assessing the entity's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the management either intends to liquidate the Assembly or to close operations or have no realistic alternative but to do so.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

Those charged with governance are responsible for overseeing the entity's financial reporting process.

### **Responsibilities of the Auditor-General on the Financial Statements**

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion,



forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the County Assembly's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the County Assembly ability to continue offering services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the County Assembly to cease to continue offering services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Perform such other procedures as I consider necessary in the circumstances.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities to express an opinion on the financial statements.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



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

**Nairobi**

**16 July 2018**