

REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF VIHIGA FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of County Assembly of Vihiga set out on pages 1 to 26 which comprise the statement of financial assets and liabilities as at 30 June 2018, 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 do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

1. Inaccuracies, Presentation and Completeness of the Financial Statements

1.1 Non Submission of a Trial Balance

The County Assembly of Vihiga has not provided a trial balance to support figures in the financial statement for the year under review. In the circumstance, completeness, accuracy and authenticity of the figures in the financial statement for the year ended 30 June 2018 cannot be confirmed.

1.2 Notes to the Financial Statements

The financial statements notes numbering do not tally with the one on the face of the financial statements. Consequently, the numbering of the notes to the financial statements is misleading.

1.3 Incorrect Opening Balance

The comparative figures in the financial statements for the year ended 30 June 2018 differed with the certified audit report for 2016/2017 resulting to variances as shown below:

Item	Opening Balance 2017-2018 Kshs.	Reported Balance 2016-2017 Kshs.	Variance Kshs.
Transfer to other government entities,	-7, 011, 210	67,800,398	-74,811,608
Social security benefits	- 14, 885, 000	14,354,595	-29,239,,595

Acquisition of assets	-316,164	48,205,624	-48,521,788
Finance cost	-9,688,790	118,657	-9,817,447
Other payments	-	64,560,377	-64,560,377

No explanation or reconciliation was provided to support the cumulative variances of Kshs.226,950,815.

1.4 Cash Flow Statement and Statement of Receipts and Payments

- i. The statement of receipts and payments total receipt is understated by Kshs.3,420,000 thus a casting error.
- ii. Cash flow statement net operating cash flow is understated by Kshs.1,157,598 which is the outstanding imprest amount omitted in the statement of cash flow.

Consequently, the accuracy and validity of the Cash flow statement and statement of receipts and payments cannot be confirmed.

1.5 Statement of Comparison of Budget and Actual Amount

Statement of comparison of budget and actual - recurrent and development combined reflect final budget of Kshs.571,213,331 which varies with approved budget figure of Kshs.530,154,162. The resultant variance of Kshs.41,059,169 has not been explained. In addition, the original and final budget figures were omitted in the statement. Further, the statement of comparison of budget and actual - recurrent and development combined reported receipts and payments of Kshs.584,464,296 and Kshs.544,037,485 against statement of receipts and payments which reported Kshs.544,024,244 and Kshs.547,273,827 for receipts and payments respectively.

Consequently, the accuracy and validity of the statement of comparison of budget & actual amount: recurrent and development combined cannot be confirmed.

1.6 Difference Between Financial Statements Figure and the Ledger Balances

The financial statements balances differ with the ledger balances for the year ended 30 June 2018 as shown below:

Items	Financial Statement 30 June 2018 Kshs.	Ledger 30 June 2018 Kshs.	Variance Kshs.
Domestic travel and subsistence	151,131,323	146,012,523	5,118,800
Printing, advertising and information supplies	1,792,535	1,664,345	128,190
Training expenses	3,342,640	1,542,640	1,800,000

Medical insurance	28,656,734	28,202,767	453,967
Office and general supplies	3,664,300	3,127,570	536,730

Casting doubt on the accuracy of the financial statements. In view of the foregoing, the accuracy, presentation and completeness of the financial statements could not be confirmed as at 30 June 2018.

2. Cash and Cash Equivalents

2.1. The statement of financial assets and liabilities as at 30 June 2018 reflects cash and cash equivalents balances of Kshs.6,263,514. However,

- i. The bank balance as per the bank certificate differed with the balances reported at Note 13A as shown below:

Name of the Account	Nature of the Account	Bank Certificate Balance Kshs.	Financial Statement (Note 13A) Kshs.	Bank Reconciliation (Bank Balance) Kshs.
Cooperative Bank	Imprest	319,275	4,308,459	5,891,361
CBK-1000195347	Development	580,143	32,636	-
CBK-1000195355	Recurrent	42,509,150	-	42,509,151

- ii. The County Assembly did not constitute Board of Cash Survey to confirm cash in hand thus the accuracy of the reported cash in hand of Kshs.1,922,419 could not be confirmed.
- iii. Bank reconciliation statement for the development account as at 30 June 2018 was not made available for audit review.
- iv. Note 13A to the financial statements reflects a nil balance under the recurrent account held with the Central Bank of Kenya while the certificate of balances, bank statements and the cash book and the bank reconciliation statement reflects balances of Kshs.42,509,150. However, the financial statements omitted the recurrent account balance.

Consequently, the accuracy and validity of the cash and cash equivalents balance of Kshs.6,263,514 could not be confirmed as at 30 June 2018.

2.2 IFMIS Cash Transactions

- i. The statement of receipts and payments reflect total expenditure of Kshs.547,273,827 while the IFMIS cash transactions of the Assembly reflect Kshs.664,818,715 for the year ended 30 June 2018. The difference of Kshs.117,544,888 has not been explained. Further, with a recurrent budget of

Kshs.530,154,162 during the year the source of excess money spent as per IFMIS cash transaction is not known.

- ii. Included in IFMIS cash transaction amount of Kshs.664,818,715 is payment to various suppliers or independent contractors totalling Kshs.116,667,827. Contrary to County Financial Accounting and Reporting Manual Section 6.7.6 on use of petty cash, which restricts use of petty cash to pay independent contractors.

Consequently, the management was in breach of the financial regulations and accuracy and reliability of the IFMIS cash transactions could not be confirmed for the year ended 30 June 2018.

2.3 Imprest Cash Book

2.3.1 Subsistence Allowances

An audit review of the imprest account cash book revealed huge cash and cheques payments to the county clerk for payments of subsistence allowances to MCAs and staff as shown below:

	Date	Payee	Amount Kshs.	Payment Voucher	Mode of payment	Cash Book Folio
1.	17 Nov.2017	The Clerk	4,894,400	0738	Cheque	18
2.	03 April 2018	The Clerk	3,148,000	02055	Cash	33
3.	14 Dec. 2017	The Clerk	3,131,100	0900	Cheque	23
4.	14 March 2018	The Clerk	3,010,000	0225	Cheque	33
5.	14 Dec. 2017	The Clerk	1,200,000	0769	Cash	20
6.	08 May 2018	The Clerk	2,898,000	01801	Cheque	38
7.	09 Sept. 2017	The Clerk	2,814,000	0185	Cheque	07
8.	09 Sept. 2017	The Clerk	2,618,000	0164	Cheque	07
9.	12 Oct. 2017	The Clerk	1,638,000	0345	Cash	12
10.	19 Nov. 2017	The Clerk	2,366,700	0734	Cheque	18
11.	11 Dec. 2017	The Clerk	1,200,000	0769	Cash	20
12.	13 Dec. 2017	The Clerk	2,195,200	0813	Cash	22
13.	23 Jan. 2017	The Clerk	2,195,200	0960	Cash	26
14.	19 March 2017	The Clerk	1,097,600	01433	Cash	31
15.	18 May 2018	The Clerk	1,103,200	02056	Cash	38
	Total		35,509,400			

From the cash and check payments it was not clear why the officers were not issued with imprest so as to account for the expenditure upon surrender of the imprest. Consequently, the management was in breach of the imprest regulation and the regularity of Kshs.35,509,400 could not be confirmed.

2.4 Unposted Funds Transfers into the Imprest Main Cash Book

The imprest bank balance as reflected under the Note 13A to financial statement is Kshs.4,308,459. In addition, transfer of funds from the Co-operative Bank main imprest account and the Central Bank of Kenya recurrent account should be reflected in the main imprest cash book as a receipt so as to finance the operations of activities and also to enable accurate and complete bank reconciliation statements as and when they are prepared. However, the following transfers were not posted in imprest main cash books.

	Date	Source	Amounts (Kshs)	Description
1	04 July 2017	Vihiga County	406,393.65	FT171857FN2B
2	04 July 2017	Vihiga County	2,300,000	FT17185ZL977
3	05 July 2017	CBK Reccurent Account	1,680,631	FT171853R7ZM
4	06 July 2017	CBK Reccurent Account	300,000	FT17187CS8Q0
5	06 July 2017	CBK Reccurent Account	5,000,000	FT1718KWQ1G
6	06 July 2017	CBK Reccurent Account	5,000,000	FT171879WPJF
7	13 April 2018	CBK Reccurent Account	5,000,000	FT181034RK89
	Total		19,687,024	

Consequently, the imprest main cash book balance was misstated.

2.5 Outstanding Imprest

The state of financial assets reflect outstanding imprest of Kshs.1,157,596. It was not clear why the County Assembly failed to recover the Imprest from defaulting officers as provided for in Section 93(6) and (7). In addition, the imprest register was not kept by the Assembly. Consequently, the Assembly management was in breach of the regulation and no explanation has been given for this omission

2.6 Imprest Issued to Non-Employees of the Vihiga Assembly

Included in the use of goods and services is domestic travel and subsistence figure of Kshs.151,131,323 which in turn includes imprest of Kshs.392,000 paid to an officer on behalf of others via imprest warrant No. 3069533 for KICOSCA games held in December 2017 at Machakos. However, examination of the attached documents and matching of disclosed ID numbers of beneficiaries against ID numbers in the pay roll during the same month revealed that none of the beneficiaries was an employee of the Assembly.

Consequently, the regularity of Kshs.392,000 is doubtful.

3. Unexplained Difference of Revenue Receipts

3.1 Exchequer Revenue Receipts

Statement of receipts and payments for the year ended 30 June 2018 reflected total revenue of Kshs.544,024,244. However, there was an under casting error in the total receipts of Kshs.3,420,000. Further, examination of the recurrent and development bank statement revealed total exchequer deposits of Kshs.536,551,143 leading to unexplained under issue of Kshs.10,893,100.

3.2 Other Receipts

The statement of receipts and payment reflected other receipts of Kshs.3,420,000. However, the transfers documents were not produced for audit review. Further it was not clear how the funds were receipted and accounted for in the financial records of the County Assembly.

Consequently, the accuracy and validity of the other receipts amounting to Kshs.3,420,000 could not be confirmed.

4. Compensation of Employees and Ethnicity

Included in statement of receipts and payments is compensation of employees totalling to Kshs.258,099,417. However, a review of the supporting documentation provided for audit review revealed the following anomalies;

- i. The IPPD payroll system and manual payrolls showed a total balance of Kshs.230,222,871 as opposed to the financial statements figure of Kshs.258,099,417 thus an unexplained variance of Kshs.27,876,546.
- ii. The wage bill constitutes 48% of the total receipts during the year. This is contrary to Public Finance Management Regulation 2015, section 107(2) that recommends a maximum of 35%.
- iii. The payroll statistics revealed that ninety seven per cent (97%) of the employees were from the dominant ethnical community of Vihiga County. This is contrary to National Cohesion and Integration Commission Act, 2008 section 7 (1) which requires that all public establishments seek to represent the diversity of the people of Kenya in the employment of staff and that no public establishment shall have more than one third of its staff from the same ethnic community.
- iv. Documents to support the identification of vacancies, advertisement of the positions, shortlisting and interview minutes for the recruitments in the year by the County Assembly Public Service Board were not availed for audit review.

Consequently, the propriety and validity of the expenditure totalling Kshs.258,099,417 could not be confirmed.

5. Use of Goods and Services

5.1 Unsupported Expenditure on Domestic Travel and Subsistence Allowances

Included in the use of goods and services figure of Kshs.242,147,520 disclosed in the financial statements is Kshs.151,131,323 in respect to domestic travel and subsistence allowances. However cash advanced to officers was expensed directly by depositing funds through the Imprest Operation at Cooperative Bank Account No 0114471295100 at Mbale to the respective MCAs accounts and staff without the use of imprest warrant contrary to

section 93(3) of the Public Finance Management (County Government) Regulations 2015. Further the expenditures were not supported by relevant travel documents such as evidence of travel, attendance registers, minutes for committee meetings, reports and approvals from the speaker as per standing order No 169 for meetings held outside the County Assembly. Consequently, it was not clear whether the expenditure was proper charge to public funds.

5.2 Unsupported Expenditure on Ward Rent and Operations

- i. Included in the use of goods and services figure of Kshs.242,147,520 in the financial statements is Kshs.7, 676,500 for rentals of produced assets. Scrutiny of the financial records confirms rental expenses at Kshs.10,379,000 thus resulting to unreconciled difference of Kshs 2,702,500 as shown below;
- ii. There were also no lease or contract agreement between County Assembly and landlords.
- iii. We also noted that Kshs.4,989,500 out of a total of Kshs.10,379,000 was incurred on ward operations expenses but no support documents on the expenditure were produced for audit review. Further, huge payment on ward operation expenditure of Kshs.1,650,000 and Kshs.1,052,500 were paid vide cash book folio 12 and 35 respectively but the payment details were not produced for audit.

Date	PV No.	Payee	Description	Amount Kshs.
September	184	Co-operative Bank	Ward Operation	225,000
October	373	The Clerk	Rent Rates non Residential	400,000
October	374	The Clerk	Rent Rates non Residential	625,000
October	375	The Clerk	Rent Rates non Residential	625,000
October	472	Nyanga Advocates	Rent Rates non Residential	75,000
March	1456	The Clerk	Rent and Rates	387,000
January	1723	The Clerk	Ward Operation	600,000
April	1755	The Clerk	Rent and Rates	745,000
May	1813	The Clerk	Rent and Rates	307,500
May	1814	Jefrica Martha Nganyi	Rent and Rates	30,000
May	1815	The Clerk	Rent and Rates	142,000
May	1830	The Clerk	Rent and Rates	353,000
June	1832	Gilbert Avuya	Rent and Rates	10,000
June	1833	The Clerk	Rent and Rates	30,000
June	1988	Gilbert Avuya	Rent and Rates	180,000
June	1989	The Clerk	Rent and Rates	360,000
June	1990	The Clerk	Ward Operation	695,000

Date	PV No.	Payee	Description	Amount Kshs.
June	2001	The Clerk	Ward Operation	697,000
Folio	2023	The Clerk	Ward Operation	70,000
	2093	The Clerk	Rent and Rates	353,000
	2094	The Clerk	Rent and Rates	70,000
	2095	The Clerk	Rent and Rates	697,000
		The clerk	Ward operation	1,052,500
		The clerk	Ward operation	1,650,000
		Total		10,379,000

In the circumstances, it was not clear whether the expenditure of Kshs.10,379,000 was proper charge to public funds.

6 Transfers to Other Government Entities

6.1. Unsupported Transfers to Other Government Entities

- i. Included in the statement of receipts and payments was transfers to other government entities of Kshs.7,011,210. However, apart from the direct transfers reported of Kshs.7,011,210 there was cash payment of Kshs.3,420,000 made to the County Executive of Vihiga as indicated at Folio 43 and 44, of the cash book without an acknowledgement of official receipt (MR) issued in favor of the County Assembly confirming the receipt. Further, a copy of the bank statement of the receipts at the County Executive was not produced for audit review.
- ii. The financial records indicated total transfers to other government entities as Kshs.10,431,210 and not Kshs.7,011,210 therefore resulting into unreconciled difference of Kshs.3,420,000 not disclosed. Consequently, the accuracy of the expenditure could not be confirmed.

7. Acquisition of Assets

The statement of receipts and payments reflects acquisition of assets figure of Kshs.15,125,720 as at 30 June 2018. However, examination of the expenditure such as CCTV, BK, & PABX in respect of acquisition of assets during the year indicated total additional assets amounting to Kshs.21,158,080 annex 4 on summary fixed assets register resulting in unreconciled difference of Kshs.6,032,360. Further, the inherited fixed assets from the defunct local authorities have not been accounted for in the summary fixed assets register.

In consequence, the accuracy, validity and completeness of the fixed assets acquired in the year could not be ascertained as at 30 June 2018.

8. Ineligible Expenditure on Legal Fees

Included in the Use of goods and services figure of Kshs.242,147,520 disclosed in the financial statements is Kshs.17,092,524 in respect to legal fees included among other operating expenses that were not supported by relevant documents. Out of the legal fee payment of Kshs.17,092,524, Kshs.10,067,566 was made to M/s Josephat Alusiola Musambayi. The legal case was at Employment & Labour Relations Court at Kisumu – Petition No.17 of 2015, Ref Josephat Alusiola Musambayi as Petitioner Vs Vihiga County Assembly and Vihiga County Assembly Service Board as 1st and 2nd Respondent respectively. Further, additional information indicated that the case was in relation to employment and labour dispute at Kisumu High court. The Court in her ruling sited violation of the petitioners’ rights under Articles 41, 47, and 236 of the Constitution and section 41 of the Employment Act, 2007. If due diligence of the sections quoted above was observed by the County Assembly, the ineligible expenditure of Kshs.17,092,524 on legal fees would have not been incurred as tabulated below:

Date	PV No	Payee	Description	Amount Kshs.
February	1080	Josephat Musambayi	Legal dues	5,000,000
March	1429	Josephat Alusiola Musambayi	Legal dues	3,000,000
April	1708	Josephat Alusiola Musambayi	Legal dues	2,067,566
		KRA Payee	Legal Dues	4,230,575
	379	Onsongo &Co Advocate	Legal Dues	450,000
	399	ABZ Musiegi	Legal Dues	500,000
	1331	Onsongo &Co Advocate	-	450,000
	1332	Simon Malonza	-	444,383
	1336	ABZ Musiegi	Legal Dues	500,000
	1361	Onsongo &Co Advocate	Legal Dues	450,000
		Total		17,092,524

The legal costs of Kshs.17,092,524 are therefore not a proper charge on public funds and the approval of the Attorney General to use the law firms was not provided for audit review. Consequently, the voidable legal fees expenditure of Kshs.17,092,524 has to be recovered from the responsible officers.

9. Budget Performance Analysis

During the year under review, the approved budget of the Assembly was Kshs.530,154,162 out of which Kshs.17,257,178 was for development and Kshs.512, 902,964 on recurrent as shown below;

	Budget Kshs	Actual Expenditure Kshs.	(Over)/Under Expenditure Kshs.	% (Over) Under Absorption

Compensation of Employee	318,779,464	258,099,417	60,680,047	19
Utilities and Supplies and services	735,000	211,295	523,705	71
Communication Supplies and Services	820,000	417,555	402,445	49
Domestic Travel and Subsistence and Travel cost	87,000,000	151,131,323	-64,131,323	-73
Printing ,Advertisement and Information Supplies	2,000,000	1,792,535	207,465	10
Rentals of Assets	7,020,000	7,676,500	-656,500	-9
Training Expenses	6,500,000	3,342,640	3,157,360	48
Hospitality Supplies and Services	5,100,000	13,047,300	-7,947,300	-155
Motor Vehicle Insurance	2,500,000	0	2,500,000	100
Medical Insurance	30,000,000	28,656,734	1,343,266	4
Specialized Materials and Supplies	2,623,400	1,874,5000	748,900	28
Office and General Supplies	2,500,000	3,664,300	-1,164,300	-46
Fuel Oil and Lubricants	2,500,000	967,300	1,532,700	61
Other operating Expenses	16,304,000	26,723,994	-10,419,994	-63
Routine Maintenance building and Vehicle	2,400,000	1,185,842	1,214,158	50
Gratuity civil servant	14,637,460	14,885,006	-247,546	-2
Gratuity MCAs	11,483,640	14,314,647	-2,831,007	-25
Purchase of furniture and Institution	8,131,198	6,416,150	1,715,048	21
Construction of buildings – power house	2,000,000	1,242,870	757,130	38
Purchase of Motor Vehicle	7,000,000	6,629,200	370,800	5
Purchase of household furniture	120,000	0	120,000	0
Total Expenditure	530,154,162	559,149,608	-12,124,946	

A review of the budget performance shows that the Assembly overspent on domestic travel and subsistence, hospitality and other operating expenses among others. The management did not provide report to County Treasury on re-allocation as required by Sec 47(2) of the Public Finance Management-County Government Regulations, 2015.

10. Overpayment of County Assemblies Forum Membership Fee

An Examination of the expenditure in respect of Membership Fee, we noted that the County Assembly of Vihiga spent Kshs.5,400,000 towards County Assemblies Forum (CAF) as annual subscriptions vide Payment Voucher No 10001314 and No 100031052. However, the statement of unpaid fees dated 26 September 2017 was Kshs.3,900,000 resulting into overpayment of Kshs.1,500,000. The management did not also provide acknowledgement of the receipts of a total of Kshs.5,400,000. In the circumstances, it was not clear whether the expenditure of Kshs 5,400,000 was proper charge to public funds.

11. Unaccounted for Expenditure on Other Operating Expenses

In the use of goods and services figure of Kshs.242,147,520 reflected in the financial statements is Kshs.26, 723,994 in respect of other operating expenses out of which Kshs.530,000 was paid in cash. Even though the management in response to the audit queries indicated that the payment was in respect of arbitration charges, the supporting documents were not availed for audit. In the circumstances, it was not clear whether the expenditure of Kshs.530,000 was proper charge to public funds.

12. Previous Year Audit Matters

As in the previous year, the Assembly did not indicate the status and follow up of audit issues reported in the previous years (2016/2017) financial statements as required in the reporting template prescribed by the Public Sector Accounting Standards Board

REPORT ON COMPLIANCE WITH LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

I do not express a conclusion on the lawfulness and effectiveness in the use of public resources as required by Article 229(6) of the Constitution. Because of the significance of the matters described in the Basis for Conclusion on Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

Basis for Conclusion

1. Compensation of Employees

1.1 Irregular Salary Payment to MCAs

On review of the payroll for County Assembly of Vihiga we noted that the Members of County Assembly were paid starting salary of Kshs.144,375 against the defined salary of Kshs123,750 as per circular SRC /011/11/2013 dated 27 November 2013. The management clarified that the gazette notice of 7 July 2017 awarded MCAs starting salary of Kshs.144,375 without sitting allowances. Further clarification indicated that the court quashed the said gazette notice sited above and directed the MCAs be paid salary and

allowances as per circular SRC /011/11/2013 dated 27 November 2013. From our observation payment of Kshs.144,375 for each member was irregular and the Assembly might have lost Kshs.6,454,692 for the ten(10) months paid to MCAs paid as at 30 June 2018. The County Assembly was therefore in breach of the law.

2. Use of Goods and Services

2.1 Over Expenditure on Domestic Travel and Subsistence Allowance

From the review of the approved County Assembly budget, Kshs.87,000,000 was appropriated for the domestic and foreign travel and subsistence allowance. We noted that included in the use of goods and services figure of Kshs.242,147,520 was Kshs.151,131,323 in respect to domestic travel and subsistence allowances. This is an over expenditure of Kshs.64,131,323 which is 73% of the budgeted amount. This is an indication that some funds may have been reallocated from other funds. However, authority on reallocation was provided thus the Assembly was in breach of the law.

3. Over Absorption of Budgeted Funds on Hospitality and Services

From the review of the approved County Assembly budget, Kshs.5,100,000 was appropriated for the hospitality supplies and services. However, included in the use of goods and services figure of Kshs.242,147,520 is Kshs.13,047,300 in respect to hospitality therefore resulting to an over expenditure of Kshs.7,947,300. This is an indication that some funds may have been reallocated from other funds. No authority on reallocation was provided thus the assembly was in breach of the law.

4. Irregular Payment of Meal Allowances

A review of the cashbook of the County Assembly of Vihiga, we noted that a payment of Kshs.812,000 to cater for sitting allowances as posted on Folio 33 of the cashbook. The sitting allowance was paid outside the payroll. The supporting documents on the list of MCAs who received the cash was not made available. Clarification from the management confirmed that the payment was a cumulative meal allowance as per SRC circular. However, the circular SRC /011/11/2013 dated 27 November 2013 on reviewed remuneration and benefits for Members of County Assembly did not approve meal allowances for meetings held within the County Assembly premises. In the circumstances, it was not possible to confirm the validity and propriety of the expenditure of Kshs.812,000 incurred and the management was in breach of the law.

5. Late Submission of the Financial Statement

The Sec 149(2)(k) of the PFM Act 2012 requires that not later than three months after the end of each financial year, prepare annual financial statements for that financial year and submit them to the Auditor-General for audit, with a copy to the County Treasury. The County Assembly of Vihiga submitted their financial statement on 12 October 2018 after the deadline of 30 September 2018. The County Assembly was therefore in breach of the law.

6. Acquisition of Assets

6.1 Acquisition of Assets – Procurement

During the year under review the County Assembly procured CCTV, BK , PABX, installation and configuration of server, local area network and peripherals. The following anomalies were noted:

6.2 Purchase of CCTV, BK & PABX

- i. The project has gone past its contract period of 20 March 2018 to 19 April 2018.
- ii. The performance bond expired on 4 September 2018 while the work is not complete.
- iii. Separation of duty was not adhered to as some officers were in the opening committee, evaluation committee and the inspection and acceptance committee.
- iv. Contract price Kshs.7,188,984 while amount paid during the year totalled Kshs.3,243,585.

6.3 Installation and Configuration of Server, Local Area Network and Peripherals

- i. The tender was re-advertised and eventually awarded to Complulynx Nyanza Ltd who had initially quoted Kshs.3,840,390 which was far much below the winners bid, but after the re-advertisement, Complulynx up scaled its bid to Kshs.6,400,717.
- ii. The engineer estimate was Kshs.7,332,400.
- iii. The project was initiated in 2016/17 and the reasons for re-advertisement was not provided and no explanation was provided for the second winner scaling upwards of the bid.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

I do not express a conclusion on the effectiveness of internal controls, risk management and governance as required by Section 7 (1) (a) of the Public Audit Act, 2015. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

Basis for Conclusion

Weak Information Communication Technology (ICT) Controls

Audit review of the Information and Communication Technology (ICT) - County Assembly of Vihiga did not have an IT Policy, Data Plan and IT Security policy which are vital in effective and efficient management of the IT resources. Further the County Assembly did not have IT steering committee which is important in performing the oversight function and formulation of policies to ensure that IT department functions are properly in place to achieve its organizational objectives. Consequently, IT assets of the County Assembly may not be efficiently utilized.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standard requires that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and Those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards/International Public Sector Accounting Standards (Cash Basis) and for maintaining effective 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 and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, management is responsible for assessing the ability to continue as a going concern/ sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the Vihiga County Assembly or to cease 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.

In addition to the responsibility for the preparation and presentation of the financial statements described above, management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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. 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 and weakness 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.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them, and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7 (1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As part of an audit conducted 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.
- 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 ability to continue as a going concern or to sustain its 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 to cease to continue as a going concern or to sustain its 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.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

17 January 2019