

REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF VIHIGA FOR THE YEAR ENDED 30 JUNE, 2019

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 27, which comprise of the statement of financial assets and liabilities as at 30 June, 2019, statement of receipts and payments, statement of cash flows and the summary 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 effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the County Assembly of Vihiga as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the County Governments Act, 2012 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Failure to Submit Original Budget

The statement of comparative budget and actual amounts: recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.701,285,805 and Kshs.617,914,441 respectively, resulting to an under-funding of Kshs.83,371,364 or 12% of the budget. The underfunding affected the planned activities and could have impacted negatively on service delivery for the public.

Similarly, Management spent Kshs.618,051,420 against the approved budget of Kshs.701,285,805 resulting to an under expenditure of Kshs.83,234,387 or 12% of the budget. However, Management did not avail the original budget for audit review.

Consequently, the accuracy and validity of the budget figures reflected in the statement of comparative budget and actual amounts for the year ended 30 June, 2019 could not be confirmed.

2. Accuracy of the Financial Statements

2.1. Statements of Receipts and Payments

The statement of receipts and payments reflects under acquisition of assets comparative balance of Kshs.15,125,720 whereas under Note 10 to the financial statements, the balance is disclosed as Kshs.24,814,510 resulting into a variance of Kshs.9,688,790. Similarly, the statement reflects other payments comparative balance of Kshs.9,688,790 whereas under Note 12 to the financial statements, discloses a nil balance resulting to a variance of Kshs.9,688,790. The variance has not been reconciled.

Further, foreign travel and subsistence expenses amounting to Kshs.1,845,900 was wrongly charged to domestic travel and subsistence and foreign travel expenditure of Kshs.1,381,800 was wrongly charged to trainings expenses.

2.2. Discrepancies between the Statements of Financial Assets and Liabilities and the Notes Balances

The statement of financial assets and liabilities as at 30 June, 2019 reflects a balance of Kshs.1,940,342 under Accounts receivables - outstanding imprests, and a comparative balance of Kshs.1,157,599 as at 30 June, 2018. However, Note 14 to the financial statements reflects staff advances balance of Kshs.248,644 only under Account receivables and no imprests as at 30 June, 2019 while the comparative balance for the previous is reflected as nil despite the fact that an analysis of the current outstanding imprests balance of Kshs.1,940,342 revealed that an amount of Kshs.636,788 of the imprest related to 2016/2017 and earlier years. This results to unreconciled variances of Kshs.1,691,698 and Kshs.1,157,599 respectively.

In absence of any adjustments to the financial statements, the accuracy of the financial statements for the year ended 30 June, 2019 could not be confirmed.

3. Unsupported Cash and Cash Equivalents

As disclosed under Note 13 to the financial statements, the statement of financial assets and liabilities as at 30 June, 2019 reflects cash and cash equivalents balance of Kshs.4,186,193. The balance constitutes cash in hand balance amounting to Kshs.2,433,577 and bank balances amounting to Kshs.1,752,616. However, the development account bank balance of Kshs.30,247 was supported by a bank reconciliation statement which reflected nil cash book balance resulting to a variance of Kshs.30,247, while the recurrent bank account with a nil balance was supported by a reconciled cash book balance of Kshs.326,612 resulting to a variance of Kshs.326,612. Further, Management did not provide the respective bank certificates and board of survey certificate to confirm the balances for audit review.

In the circumstance, the accuracy and validity of the cash and cash equivalent of Kshs.4,186,193 reflected in the statement financial assets and liabilities as at 30 June, 2019 could not be confirmed.

4. Unsupported Expenditure

4.1. Use of Goods and Services

As disclosed under Note 5 to the financial statements, the statement of receipts and payments reflects a balance of Kshs.268,264,331 under use of goods and services. The following unsatisfactory matters were observed;

i) Unsupported Foreign Travel and Subsistence

The balance includes foreign travel and subsistence allowances expenditure amounting to Kshs.8,893,136 out of which Kshs.3,337,236 was issued to the Clerk to the County Assembly as imprest on behalf of thirteen (13) members of the County Assembly (MCAs) and two (2) Assembly staff for a trip to Bujumbura, Burundi. However, Management did not avail a signed payment schedule acknowledging receipt of money, return to office report, visas and boarding passes for audit review. Further, Management did not give explanations why the imprest was issued to the Clerk to the County Assembly on behalf of the others.

ii) Unsupported Training Expenses

The balance includes training expenses of Kshs.4,098,250 out of which Kshs.1,381,800 was paid to three (3) MCAs to travel to Singapore. However, Management did not avail, for audit review, a signed payment schedule acknowledging receipts of money, training schedule, visas and boarding passes. Further, Management did not give any explanation on why imprest was issued to the Clerk to the County Assembly on behalf of the MCAs and reasons for charging the expenditure under training expenses instead of foreign travel and subsistence allowance.

iii) Unsupported Domestic Travel Expenditure

The balance includes domestic travel and subsistence allowance of Kshs.180,178,631. However, Management issued imprest of Kshs.163,504,018 to the Clerk of the Assembly instead of the individual MCA and Assembly staff. This is contrary to the Section 93 of the Public Finance Management (County Governments) Regulations, 2015. In addition, Management did provide supporting documents such as payment schedules, approval to hold meetings outside the County, recipients of cash, attendance registers, return to office reports, procurement documents for meetings venues. Further, foreign travel and subsistence amounting to Kshs.1,845,900 was wrongly charged to domestic travel and subsistence.

3.2 Unsupported Acquisition of Assets

As disclosed under Note 10 to the financial statements, the statement of receipts and payments reflects acquisition of assets balance of Kshs.10,184,039 which includes payments amounting to Kshs.4,348,788. However, Management did not provide supporting documents such as payment vouchers authorized by the Accounting Officer, tender opening minutes, inspection and acceptance committee appointment letters and local purchase orders, for audit review.

In the circumstances, the accuracy, completeness and validity of the of the statement of receipts and payments for the year ended 30 June, 2019, could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the County Assembly of Vihiga Management in accordance with ISSAI 130 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 judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

Other Matter

Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, although the Management has indicated that the issues have been responded to, the matters have remained unresolved as the Senate and the County Assembly have not deliberated on the issues.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require 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 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 overall governance.

In preparing the financial statements, Management is responsible for assessing the County Assembly's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to dissolve the County Assembly or to cease operations.

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 County Assembly 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 overall 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 overall 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 applicable 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's ability to continue 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 County Assembly to cease to continue 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 County Assembly 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.



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

22 April, 2021