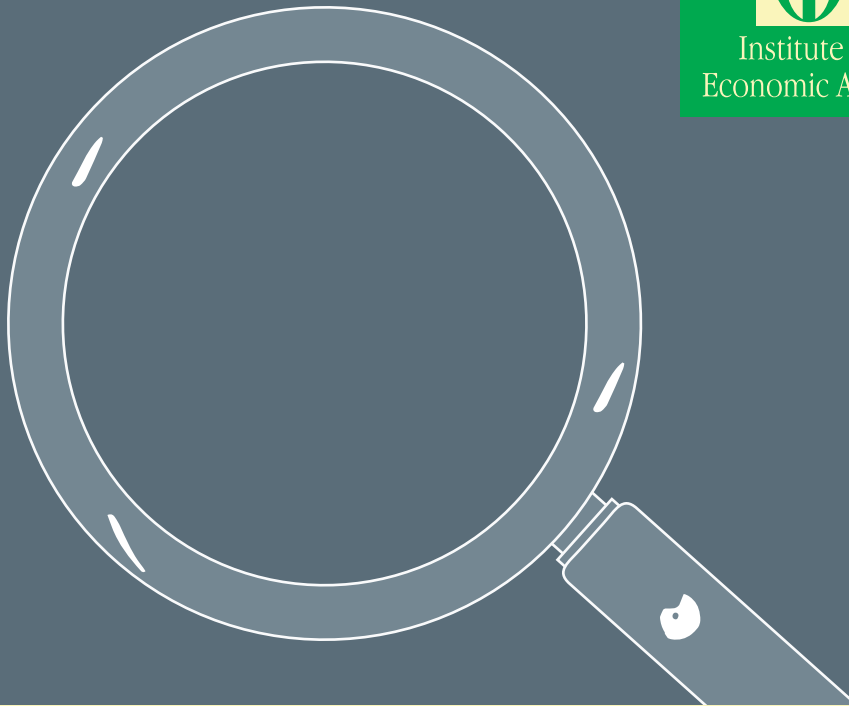




Institute of
Economic Affairs



Analysis of the Auditor General's Reports on the Financial Statements of the Executive and County Assembly of Vihiga County

2016/2017 - 2017/18 Financial Years



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Table of Contents

1. Introduction	4
2. Possible Audit Reports	5
3. Vihiga County Executive	6
4. What could have been the best use of the questioned amount? (Opportunity Costs)	9
5. Vihiga County Assembly	10
6. What could have been the best use of the questioned amount? (Opportunity Costs)	12
7. Which channels can citizens use to hold the responsible leaders to account?	13
Defintion of Key Terms in Audit Reports	14

1. Introduction

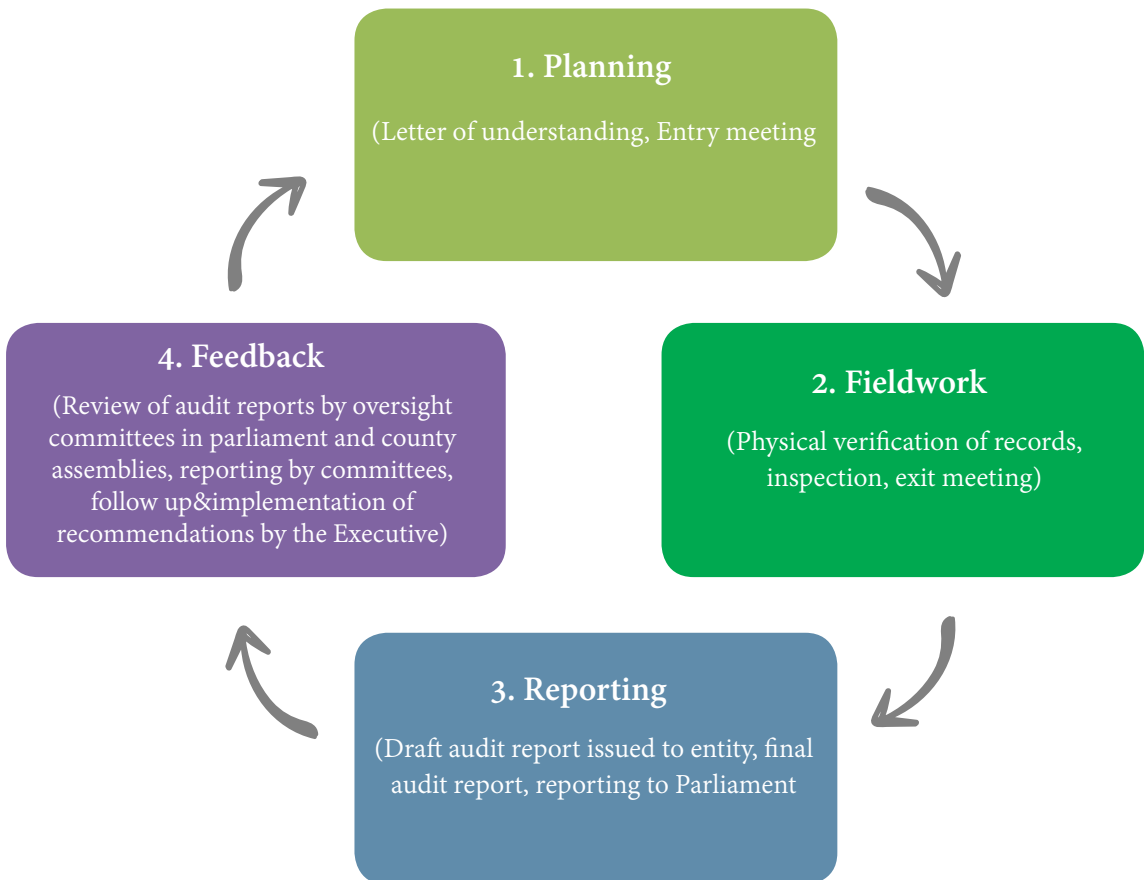
Each year the government sets aside funds for the performance of different functions. Execution of these functions is carried out by the three arms of government and various public-funded agencies. The Office of the Auditor General is established under Article 229 of the Constitution of Kenya 2010, to undertake audits and confirm all public funds are spent **lawfully** and **effectively**.

What is an Audit?

- An audit is the independent examination of an entity's spending to confirm fairness and accuracy of transactions
- Audits are conducted to confirm whether public funds are spent lawfully and effectively

How is the Public Audit Process Conducted in Kenya?

The public audit process is illustrated below:



2. Possible Audit Reports

An audit report is the written opinion of the Auditor, regarding an entity's financial statements¹. The following are the four opinions that can be issued by the Auditor:

Opinion	Meaning
Unqualified	This is a clean opinion. It means the financial statements represent a true and fair view of the entity's spending
Qualified	This opinion is issued where the Auditor finds the statements contain some errors ² which are significant ³ but not widely spread ⁴
Adverse	This opinion is issued where there are errors; both significant and widely spread across the financial statements.
Disclaimer of Opinion	This is issued where the Auditor is unable to form an opinion because sufficient audit evidence was not provided. The lack of evidence implies statements could contain errors both significant and widely spread.

What is an Audit Query?

An audit query is a question posed by the Auditor regarding unlawful transactions identified during an audit.

What does an Audit Query include?

It highlights the **nature of the unlawful spending**, the **amount questioned** and the **consequences** of the action.

¹The term financial statements are defined under key terms on page 14

²Often referred to in audit language as misstatements

³In audit terms-significant errors are said to be material

⁴This refers to the pervasiveness of the misstatements

3. Vihiga County Executive

What was the audit report/opinion for the County Executive of Vihiga for the FY 2016/17 and 2017/18?

The table below summarises the audit opinion for Vihiga County Executive

Financial Year	Audit Opinion
2016/2017	Disclaimer of Opinion
2017/2018	Qualified Opinion

What were some key audit queries for the County Executive of Vihiga FY 2016/17?

The table highlights some of the key audit queries for the Vihiga County Executive for the Financial Year 2016/17.

No.	Queries	Details	Amounts Queried in KES.
1.	Cash and cash equivalents	Unreconciled differences between cash flow statements and financial statements.	37,338,194
		Cash and cash equivalents at the beginning of the year differ with comparative figures.	102,512
2.	Outstanding Imprests	Unreconciled differences between the ledger and imprests register.	2,173,919
		Understatement of imprests in the financial statements.	20,455,283
		Some of the imprests have been outstanding from July contrary to regulations.	15,824,211
3.	Acquisition of land	No ownership documents of the land were made available for audit verification.	23,940,000
4.	Acquisition of assets	The Executive acquired assets but did not provide disclosure notes in the financial statements to show a summary of fixed assets held by Executive.	185,964,463
5.	Unconfirmed hospital fees	It was not possible to determine whether the collection was a net of vendors commission or otherwise, as contract agreement between vendor and hospital was not made available for review.	13,650,041
6.	Pending bills	Pending bills under the Departments of Education, Health, Agriculture, Gender, Lands, Treasury, Water and Environment, Public Service and Administration, Governor's office and County Public Service were not supported as required.	1,789,581,398

7.	Unbudgeted Expenditure	The departments of Agriculture, Livestock, Fisheries and Cooperatives did not have a budget for agricultural materials, supplies and small equipment.	44,748,120
8.	Under absorption of development funds	No explanation was given for the failure to utilize all the budgeted funds.	82,142,083
9.	Unsupported rehabilitation of Kidinye- St Joseph TTC Road	Failure to observe procurement regulations and provide inspection and completion certificate. The contractor had left site yet the road was incomplete; stalled construction.	1,453,248
10.	Leasing of medical equipment	No intergovernmental agreement on leasing of medical equipment was provided for audit verification.	95,744,681

Vihiga County Executive FY 2017/18

The table highlights some of the key audit queries for Vihiga County Executive for the Financial Year 2017/18.

No.	Queries	Details	Amounts Queried in KES.
1.	Failure to disclose liability under social security benefits	The accounts payable excludes money due to LAPTRUST Fund, the defunct local authority, and County Government.	12,897,705
2.	An unexplained drop of revenue from source	Variations between revenue collected and banked were not explained by Management. Adjustments reduced revenue collections were not supported with supporting schedules.	4,328,051 7,424,200
3.	Failure to make recoveries on staff advances	Salary advances issued to eleven county officers during the year were not fully recovered contrary to provisions and law.	1,437,835
4.	Irregular issuance of advance salaries	The Executive paid four members a salary advance despite them having unrecovered balances.	770,312
5.	Irregular recruitment of staff on contract	The Executive has not published its staff recruitment policy to guide human resource management.	202,000,000
6.	No value for money from the collapsed classroom	ECD classroom at Asing'o collapsed while undergoing construction and the contractor has not been paid. No evidence to show technical officers were involved in the evaluation of the work to guide in the approval of payments.	716,815
7.	Irregular supply and delivery of ECD chairs and tables	No advertisement was made, as per the law and regulations. The contractor was registered as a road works contractor and not a supplier of furniture. The contractor delayed meeting contract conditions and project timelines. It was not made clear when 2,223 chairs and tables would be supplied.	7,900,000

8.	Irregular Procurement of works for rehabilitation of Itando Talent Centre	No budget had been prepared for rehabilitation works. There was no evidence of works advertised as open tender given the value. The tender sum was higher than engineers estimates. The selected contractor did not have supporting documents; certificate of incorporation, a certificate from NCA, KRA PIN and tax compliance certification.	10,007,207
9.	Irregular procurement of sports equipment	Failure to follow procurement procedures. The contractor was not prequalified.	8,683,365
10.	Unverified Sourcing of the contractor	The Director of Public Service and Administration paid a local service contractor to fumigate and clean the office of the Governor. No records were made available to confirm services had been rendered.	1,200,000

What was the amount queried in relation to total expenditure?

- **2016-2017** : 92% of the total expenditure was queried; equivalent to KES 4.44 billion
- **2017-2018**: 55% of the total expenditure was queried; equivalent to KES 2.96 billion



4. What could have been the best use of the questioned amount? (Opportunity Costs)

Any misappropriated funds could have been put into meaningful use to give the people of Vihiga County better services and achieve greater value.

The following are examples of funds that could have given the population better public services:

a) Improved Health Care at the County Referral Hospital

The County Executive spent only 65% of the total allocated health budget of KES 233,259,166 in the FY 2017 – 2018; this amounted to KES 82,142,083. Had this money been absorbed, it would have been sufficient to address health priorities identified in the County Financial Strategy Paper (CFSP) 2017, which included reduction of disease incidences to ease the burden on the County Referral Hospital through the provision of drugs, medical supplies.

b) Rehabilitation of the St Joseph TTC Road

In the 2017 – 2018 FY, the County Executive made payments of KES 210,000 for work not done. This payment was in respect to the installation of 600mm diameter culverts as part of the rehabilitation of the St. Joseph TTC Road. The contractor has not completed the works specified. This is a cost that should not have been incurred as it affects the effective service delivery in the sector such as guided stormwater systems.

5. Vihiga County Assembly

What was the audit report/opinion for Vihiga County Assembly for the FY 2016/17 and 2017/18?

Financial Year	Audit Opinion
2016/17	Qualified Opinion
2017/18	Disclaimer of Opinion

What were some key audit queries for the County Assembly of Vihiga FY 2016/17?

The table highlights some of the key audit queries for Vihiga County Assembly for the Financial Year 2016/17.

No.	Queries	Details	Amounts Queried in KES.
1.	Incorrect opening balance	No explanation provided to support the cumulative balances.	226,950,815
2.	Differences between financial statements and ledger balances	The variances in financial statements cast the doubt on the accuracy of financial statements.	8,037,687
3.	Cash and cash equivalents unreconciled variances	Bank balances as per bank certificates differed with balances in the financial statements.	42,509,150
4.	IFMIS cash transactions	Failure to explain differences between financial statements and IFMIS statements. Source of Excess IFMIS cash transaction not known. Use of IFMIS cash transaction to pay for independent contractors.	117,544,888 116,667,827
5.	Imprests cashbook	Failure to issue imprests to County Assembly officers to account for payments to be made to them.	35,509,400
6.	Imprests issued to non-employees of Vihiga Assembly	Imprests to an officer on behalf of others who are not employees of the Assembly during Kenya Inter-Counties Sports and Cultural Association (KICOSCA) games in December 2017.	392,000
7.	Unexplained difference of Exchequer revenue receipts	The unexplained difference in recurrent and development bank statements. Under casting error in total receipts.	10,893,100 3,420,000
8.	Ineligible expenditure on legal fees	Expenditure was not supported by relevant documents. Approval from the Attorney General to use law firms not provided.	17,092,524

9.	Unaccounted for expenditure on other operating expenses	Supporting documents for payments in arbitration charges were not availed for audit review.	530,000
10	Unsupported expenditure on ward rent and operations	No lease or contract agreements between County Assembly and landlords.	
		Unreconciled amounts in financial records.	2,702,500
		Payment details were not produced for audit.	10,379,000

What were some key audit queries for the County Assembly of Vihiga FY 2017/18?

The table highlights some of the key audit queries for Vihiga County Assembly for the Financial Year 2017/18.

No.	Queries	Details	Amounts Queried in KES.
1.	Inaccuracies of the statement of cash flow	The cash flow statement was not properly prepared, This cast errors in net cash flow from the operating balances.	375,108
2.	Irregular sitting allowances	Payments made against names of members were added irregularly adding an extra expenditure.	234,000
3.	Double allowance	Sixteen committees had cumulative membership while plenary was ongoing and both had 99% attendance this resulted in double attendance	2,983,500
4.	Payments above SRC recommended monthly ceiling	Members of county assembly were irregularly paid allowances. No reason was provided for failure to adhere to SRC ceilings.	2,983,500
5.	Irregular plenary sitting allowances	Five MCAs were paid sitting allowances for chair and vice-chair using departmental rates rather than plenary rates leading to overpayment.	516,000
6.	Non-taxed employment benefits	Unrecovered amount in the year under review.	1,206,000
7.	Landscaping, carbro works and car park project	There was a delay in contract execution, interim certificates did not have details of specific work done, unaccounted for work done and there was a change in design.	45,228,117
8.	Supply and installation of a generator	The generator was supplied but never installed or commissioned for use as intended despite Assembly having paid.	48,205,624
9.	Budget underperformance	Unexplained variances between current and previous years.	2,432,422
10.	Unauthorised payments	Payment vouchers were paid without being authorized by an Authority to Incur Expenses (AIE), holder.	3,821,860

What was the amount questioned in relation to the total spending by the Assembly?

- **2016/2017:** 56% of the total expenditure queried; equivalent to KES 345.80 million
- **2017/2018:** 74% of the total expenditure queried; equivalent to KES 403.47 million



6. What could have been the best use of the questioned amount? (Opportunity Costs)

The following are examples of funds that could have given the population better value if properly accounted for:

- a) The questioned cost of ineligible expenditure on legal fees of KES 17,092,524, could provide further services to residents of Vihiga County through enhanced citizen engagement in the activities of the Assembly.

7. Which channels can citizens use to hold the responsible leaders to account?

1. The Constitution and various Acts of Parliament provide for the avenues for public participation, in the planning and budget cycle. From budget formulation to oversight (audit) process.
2. Some legal channels available for the public to hold leaders to account include:
 - a. Petitions to Parliament; written, must demonstrate effort of trying to resolve;
 - b. Submissions both oral and written (Memorandum) during public hearings;
 - c. Parliament and Assembly Committee inquiries;
 - d. Engagement during vetting and approval of nominees for appointments to county public offices as may be required by law; and
 - e. Engagement during impeachments/removal of state officers like the governor, Speaker, County Executives and County Public Service Board.
3. The following bodies are further mandated to provide oversight. Citizens can use the available public participation processes within the agencies, to lodge formal complaints or request for inquiries into corrupt practices:
 - a. Ethics and Anti-Corruption Commission;
 - b. Director of Public Prosecutions;
 - c. Director of Criminal Investigation;
 - d. Office of the Auditor General; and
 - e. National Treasury.

Definition of Key Terms in Audit Reports

Financial Statements	These are formal records of the financial activities and position of an entity. The structure and contents of financial statements are governed by various laws and regulations, including international financial reporting standards.
True and fair	‘True and fair’ is a concept concerning a set of financial statements that implies there are no significant errors and misrepresentations in the records. Financial statements will not be ‘true and fair’ unless the information they contain is adequate in terms of both quality and quantity to satisfy the reasonable expectations of users of the financial statements.
Internal control systems	This refers to the processes designed, implemented and maintained by those charged with governance and management. This provides reasonable assurance about the achievement of an entity’s objectives concerning the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
Unsupported expenditure	This is spending that lacks adequate documentation, such as approvals, authorizations, receipts and vouchers etc. A transaction is also unsupported where some goods and services cannot be verified as received.
Excess/Unauthorized expenditure	This refers to overspending without authorization. In this case, spending is above the budget for a particular programme, but there is no supplementary budget or other authorization to exceed the spending limit in law. .
Irregular expenditure	This is spending incurred in violation of the relevant legislation, including the Public Finance Management Act, 2012, County government Public Finance Management Regulations, 2015, Public Procurement and Asset Disposal Act, 2015 or any other Act of Parliament.
Value for money	The economic (spending less), efficient (spending well) and effective (meeting objectives) utilization of resources.
Pending Bills	These are monies or arrears yet to be paid to suppliers for goods delivered or services rendered to a given entity.



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