National Taxpayers Association
pesa zetu, haki yetu

VIHIGA COUNTY

2019 CHAMBUA

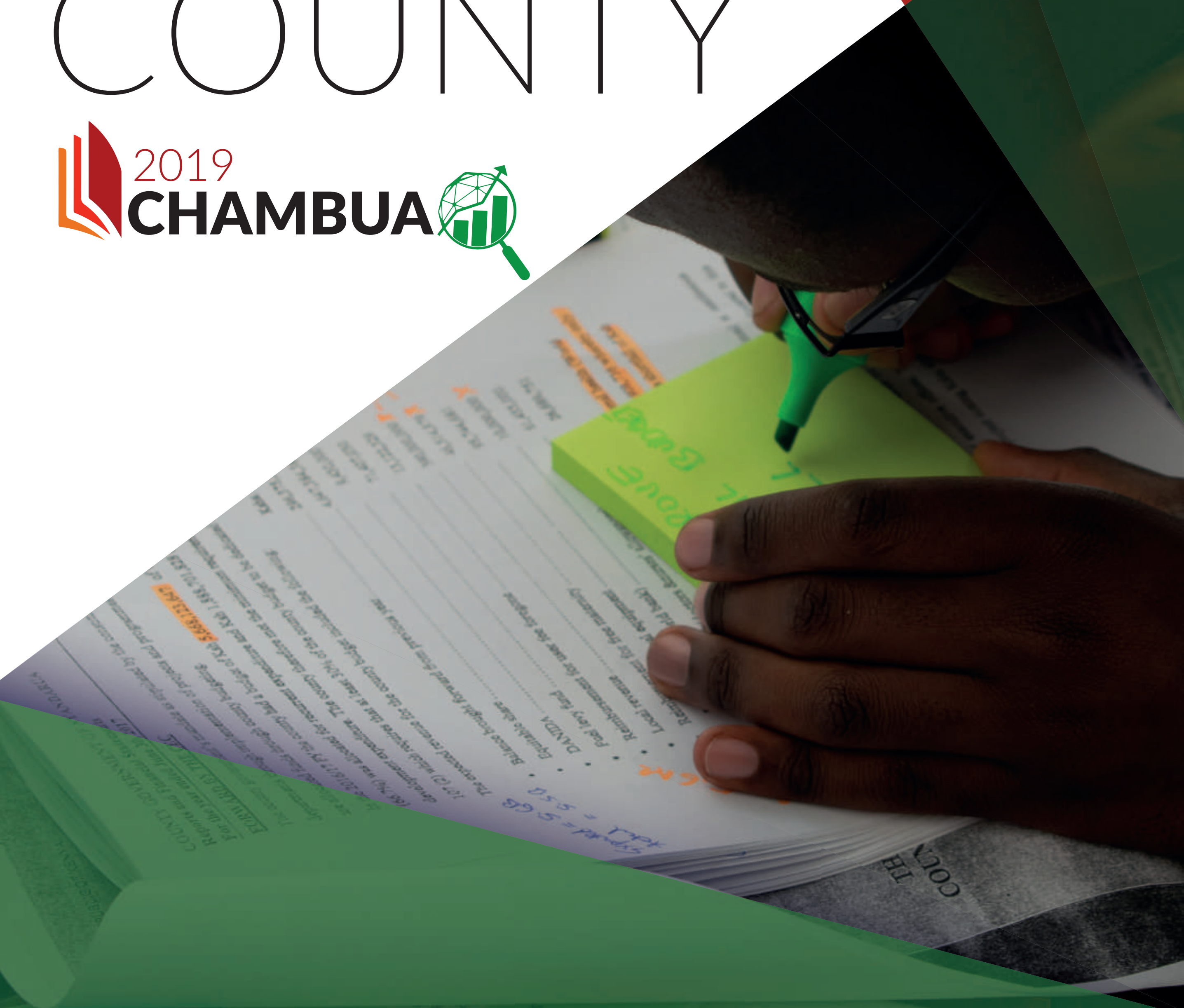


TABLE OF CONTENTS

ACRONYMS

NTA	National Taxpayers Association
OAG	Office of the Auditor General
CA	County Assembly
CE	County Executive
IFMIS	Integrated Financial Management Information System
PFMR	Public Finance, Management Regulations
PFM	Public Finance Management
KRB	Kenya Road Boards
OSR	Own Source Revenue
KEMSA	Kenya Medical Supplies Authority
CBEF	County Budget and Economic Forum
COB	Controller of Budget
MCA	Member of County Assembly
FY	Financial Year

ANNEX

1. Based on the OAG reporting opinions, the County executive audit reports were assigned either of the following;

    - **QUALIFIED (Kind of Good):** Assessment that would have been considered clean but for a few audit queries
    - **ADVERSE (Kind of Bad):** Has pervasive (systematic) problems. Of high concern
    - **DISCLAIMER (Bad):** Has shoddy record keeping, Auditor General unable to review and form opinion
    - **UNQUALIFIED (Very good):**
    - **NO REPORT:** No opinion was provided

2. Total Budget refers to all the money allocated to the assembly or executive; Recurrent cost refers to recurring costs such as wages while development expenses examines the monies allocated to development projects.

3. Pending Bills are the bills awaiting to be settled by the county. It is usually represented in terms of absolute figures or as a percentage

4. Impress refers to a fund used for small items of expenditure e.g. Petty cash

INTRODUCTION

The Auditor General is mandated by the article 229 of the constitution of Kenya, the Public Audit Act, 2015, to audit and report on the use of public resources by all entities funded from public funds including the national government, county governments, the Judiciary, Parliament, statutory bodies/state corporations, commissions, political parties funded from public funds, other government agencies and any other entity funded from public funds.

Consequently, the auditor general has conducted an audit of the financial statements in accordance with the International Standards of Supreme Audit Institutions (ISSAIs), and has issued an auditor's report for the year 2017/2018. It is from this report that we have analysed the Nairobi City County performance.

VIHIGA COUNTY ASSEMBLY

OPINION

Disclaimer

Budget Total:
Ksh 530,154,162

Recurrent:
Ksh 512,902,964

Development:
Ksh 17,257,178

Over expenditure:
Ksh 86,233.670

Domestic travel and subsistence:
Ksh 87,000,000

Outstanding imprests:
Ksh 1,157,596

Unsupported Expenditure:
Ksh 158,823,323

1. WEAKNESS IN FINANCIAL REPORTING

The CA failed to provide trial and balance figures in the financial statement for the year under review hence the completeness, accuracy and authenticity of the figures in the financial statements could not be confirmed.

Comparative figures for the year under review and the previous year 2016/17 differed resulting to unexplained variance of Ksh 226,950,815.

Statements of receipts and payment total receipts had a casting error leading to an understatement of Ksh 3,420,000. Further statements of cash flows excluded the outstanding imprests amount leading to an understatement of the net cash flow by Ksh 1,157,598.

Statement of comparison of budget and actual amount varied hence the accuracy of the statement and comparison of budget and actual amount: recurrent and development combined could not be confirmed.

There was a difference between financial statements figure and the ledger balances hence causing inaccuracies of the financial statements as follows:

i. Domestic travel and subsistence variance of Ksh 5,118,800 between the financial statements and ledger balances.
ii. Training expenses had a variance of Ksh 1,800,000 between the financial statements and ledger balances.
iii. Medical insurance had a variance of Ksh 453,967
iv. Office of the general supplies had a variance of Ksh 536,730
v. Printing, advertising and information had a variance of Ksh 128,190

The county omitted financial statements of the recurrent account balances and the reconciliation statements of the development account was not made available for audit review leading to reconciled variances in the cash and cash equivalent statements.

Unexplained variance of Ksh 117,544,888 between the statement of receipts and IFMIS transactions. With a recurrent budget of Ksh 530, 154, 162, the excess money spent as per the IFMIS cash transactions is not known.

Included in the IFMIS cash transactions is Ksh 664,818,715 is payment to various suppliers or independent contractors totalling to Ksh 116,667,827 contrary to County Financial Accounting and manual section 6.7.6 on the use of petty cash which restricts use of petty cash to pay independent contractors.

2. MANAGEMENT OF IMPRESTS

The audit review revealed the imprests account cash book revealed cash and cheques payment to the county clerk for payment of subsistence allowances to MCAs.However it is not clear why the officers were not issued with imprests so as to account for the expenditure upon surrender of the imprests hence the management was in breach of the imprests regulation and regularity of Ksh 35,509,400 could not be confirmed.

An amount of Ksh 4,308,459 reflected the bank balance of imprests however an amount of Ksh 19,687,024 were not posted in the imprests main cash books.
An amount of Ksh 392,000 was paid to an officer on behalf of others for KICOSCA games held in December 2017 at Machakos. However, the examination of attached documents and matching of disclosed IDs di d not match those of the beneficiaries against the pay roll and was revealed that none of the beneficiaries was an employee of the assembly.
The county had outstanding imprests of Ksh 1,157,596 and it was not clear why the County failed to recover the imprests from defaulting officers as provided by section 93(6) and (7). Additionally, the County Assembly failed to keep the imprests register.

3. REVENUE MANAGEMENT

Unexplained difference of revenue receipts of Ksh 10,893,100 and 3,420,000. Statements of receipts and payments reflected other receipts of Ksh 3,420,000. However, the transfer documents were not produced for audit review.

4. WAGE BILL MANAGEMENT

The audit revealed unexplained variance between the IPPD payroll and the manual pay roll of Ksh 27,876,546 paid for compensation of employee's employees.

Irregular salary payments by MCAs of Ksh 144, 375 paid as starting salary against the defined salary of Ksh 123,750 as per the SRC circular of 2013. The assembly therefore lost Ksh 6,454,692 for the ten months paid to MCAs at 30th June 2018.

The wage bill accounted for 48% of the total receipts during the FY contrary to section 107 (2) County Public Finance Management (County Government) Regulation 2015 which recommends a maximum of 355.Documents to support the identification of vacancies, advertisement of the positions, shortlisting and interview minutes for recruitments by the county public service board were not availed for audit hence a risk of having paid ghost workers.

5. UNSUPPORTED AND UNAUTHORIZED TRANSACTIONS

Unsupported expenditure on domestic travel of Ksh 151,131,323 directly deposited through the imprests operation at Cooperative account bank Mbale to respective MCAs accounts and staff without using the imprests warrant contrary to Section 93(3) of the County Public Finance Management (County Government) Regulation 2015.The expenditure were not supported by relevant travel documents and tickets.

An amount of Ksh 4,989,500 was incurred on ward operations expenses but no supporting documents were availed on the expenditure. Further Ksh 1,650,000 and Ksh 1,052,500 were paid vide cash book folio 12 and 35 with no supporting payment details.

Statements of receipts and payments reflects acquisition of assets figure of Ksh 15,125,720. However, examination of the expenditure in respect of acquisition of assets during the FY indicated an additional asset of total Ksh 21,158,080 resulting in unreconciled difference of Ksh 6,032,360. Fixed assets for the defunct local authorities were also not accounted for.

Ineligible expenditure on legal fees of Ksh 17,092,524 included among other operating expenses that were not supported by relevant documents. Out of the 17m, Ksh 10,067,566 was made was paid to Mr. Joseph Alusiola. The amount was not a proper charge on public funds and the approval of the Attorney General to use the law forms was not provided for audit review.

Overpayment of the County assembly's forum by Ksh 1,500,000 for membership fee and the management did not provide acknowledgment receipt of total Ksh 5,400,000 which was an overpayment by Ksh 1.5mill hence not a proper charge for public funds.

Unaccounted for expenditure of Ksh 530,000 paid in respect to other operating expenses. However, documents were not availed for audit review.

Over expenditure of domestic travel of Ksh 64,131,323 which was 73% of the approved Ksh 87,000,000. Irregular payment of meal allowances of Ksh 812,000 to cater for sitting allowances that was paid outside the payroll. Supporting documents were not also made available and the SRC circular did not approve meal allowances for meetings held within the county for MCAs.

6. NON-COMPLIANCE OF PFM ACT,2012

The county submitted financial statements on 12th October 2018 after the deadline of 30th September 2018 thus was in breach of section 149 (2) (k)of the Public Finance Management, Act 2012.

VIHIGA COUNTY EXECUTIVE

OPINION

Qualified opinion

Budget Total:
Ksh 3,790,366

Projected own source revenue:
Ksh 220,000,000

Recurrent:
Ksh 3,604,401,946

Actual revenue:
Ksh 145,195,524 (65%)

Development:
Ksh 185,964,463

Variance:
Ksh 75,000,000

Over expenditure:
Ksh N/A

Under absorption:
Ksh 271,132,059

Unsupported Expenditure:
Ksh 236,661,137

Unbudgeted expenditure:
Ksh 47,448,120

Domestic travel and subsistence:
Ksh 14,786,870

Foreign travel:
Ksh 31,399,498

Outstanding imprests:
Ksh 57,813,757

Previous pending bills:
Ksh 1,062,857,878

Current Pending bills:
Ksh 1,789,581,937

Variance:
Ksh 726,724,059

HIGHLIGHTED ISSUES

1.PENDING BILLS

Pending bills increased from Ksh 1,062,857,878 in the FY 2016/17 to Ksh 1,789,589,937 in the FY 2017/18. The pending bills were mainly pending supplier payments, retention monies and unpaid statutory deductions.

2.MANAGEMENT OF IMPRESTS

Outstanding imprests had unreconciled variance of Ksh 2,173,919. The CE had outstanding imprests of Ksh 57,813,757 however the ledger reported Ksh 55,639,838. In addition to that note 15 indicated imprests of Ksh 35,184,555 hence an understatement of Ksh 20,455,283. Some imprests were outstanding from July 2017 contrary to the regulations. Due to the discrepancies the reported figure of Ksh 57,813,757 could not be ascertained.

The standing imprests facility for office operation in respect of Vihiga County treasury was issued in the name of office holder and not in the name of an officer contrary to what the regulation stipulates. The county also lacked a standing imprests register hence the voucher provided failed to indicate the maximum amount of the standing imprests facility operated by the county treasury.

Failure to account for temporary imprests of Ksh 1,464,800 for the training and appraisal that was scheduled for 5 days and was attended by officers from various Counties and Sub-Counties. The payment voucher paid to David Jumma was not supported by details of where the training was conducted and on what criteria the 65 participants were selected for the training. There was also no daily attendance register attached to the payment voucher and the invoices for goods that were purchased were not attached to the payment voucher and delivery notes as well.

3. UNSUPPORTED AND UNAUTHORIZED EXPENDITURE

Unsupported expenditure of Ksh 23,940,000 used in acquisition of land that was paid to a vendor however the county failed to provide the title deed for verification.

Unsupported rehabilitation of Kidney St. Joseph Teachers training college Road (1.1km) Central Maragoli which had an allocation of Ksh 1,453,248. As the time of inspection, the contractor had been paid the full amount however the following issues were identified:

i. The contractor was not on site during the audit inspection in November 2018 and the road was still incomplete.

ii. One culvert installation of 600mm diameter twenty-one long meters had not been done at a rate of Ksh 10,000 per metre totalling to Ksh 210,000.
iii. Construction of stone check dams 50 in number at a rate of Ksh 1,000 in erosion gullies as directed by the engineer Ksh 50,000 was also pending.
iv. The contractor did not perform a performance bond of 10% per the contract agreement. It was not possible to confirm the authenticity of the expenditure of Ksh 1,453,248 without the inspection and completion certificate.

Unsupported expenditure of Ksh 185,755,852 for specialized material and services, purchase of drugs and non-pharmaceuticals in the in the department of health. However, no supporting documents i.e. invoices, delivery notes or vouchers were availed for audit.

Unsupported payments of Ksh 14,786,870 for domestic travel and Ksh 16,170,498 for foreign travel with no supporting travel documents and reasons for travelling.

An amount of Ksh 13,000,000 were imprests transferred by Vihiga county treasury for reimbursement were not supported by any documentation. This reflects a sign of weak internal controls and poor governance over imprests management and transaction processing as a result of lack of supervision, documentation and proper risk management.

4. MANAGEMENT OF FIXED ASSETS

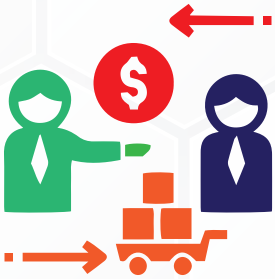
Completeness, custody, valuation, accuracy and security of fixed assets could not be ascertained as the Count failed to provide a disclosure note to show a cumulative summary of fixed assets acquired at Ksh 185,964,463 for the FY16/17 and Ksh 776,520,291 as at June 2018.

Review of the financial statements revealed that assets inherited from the defunct local authorities were omitted from the financial statements further the defunct local authority is yet to hand over assets and liabilities rom the defunct local government to the County.

The County executive did not indicate the status and follow up of audit issues reported in the previous financial year 2016/17 financial statements as required in the reporting template prescribed by Public sector accounting standards board.

Included in the acquisition of assets is land acquisition of Ksh 23,940,000 paid to a vendor for sale of two parcels however: no evidence was provided to indicate that the land purchase was part of the pending bills, it was not explained why the land had taken 4 years to advertise in order to complete the transaction, no procurement professional opinion was made available for audit examination, no evidence of procurement plan was prepared and submitted to the national treasury as required by the PP act, no ownership / title deed was made available for audit verification.

5. PROCUREMENT AND CONTRACTING ISSUES



As at the time of auditing, construction of a new mortuary building at Mbale District hospital had the following anomalies:

i. No documentary evidence in terms of advertisement was provided to show how contractors were identified and notified about the works and no tender register and tender opening minutes were made available for audit examination.
ii. The tender valuation minutes were not provided beside the letter appointing the evaluation committee for audit examination.
iii. Further the evaluation minutes were signed by the secretary and the only one member who again signed for e chairman of the evaluation committee. The remaining 4 members did not append their signatures.
iv. No letters were addressed to the losing bidders as required by the public procurement act 2005 section 7.
v. Physical verification revealed that the project was ongoing with a few workers in place yet the contract had lapsed with no extension of the contract period.
vi. No detailed breakdown of the works that were carried out were availed for audit examination to confirm payment of Ksh 4,543,437 hence validity of this amount could not be confirmed.

Proposed design and supervision of 160 bed hospital plaza at Vihiga County referral hospital at a contract sum of Ksh 13,000,000. As at the time of audit inspection the contractor had been paid Ksh 5,200,000 vide payment voucher number 01069 of 13th March 2018. However, examination of supporting documents revealed the following anomalies:

i. No documentary evidence in terms of advertisement was provided to show how contractors were identified and notified about the works.
ii. No tender register and opening tender minutes were availed for audit.
iii. No notification of award and letter of acceptance were made available for audit examination
iv. No evaluation minutes for the above services were availed for audit
v. The contract had lapsed and no evidence in writing agreed by both parties for extension was made available for audit examination.
vi. The contractor raised a fee note dated 24th February 2015 of Ksh 13,000,000 even before the contract of constructing the hospital had been entered into.
vii. No approved budget and procurement plan for the period that the contract of consultancy services was entered into was made available for audit review. The CE was in breach of the public procurement law.

An amount of Ksh 13.650,041 hospital fees collection was done by a software vendor. However, it was not possible to determine whether the collection was net of the vendors commission or otherwise as the contract agreement between the vendor and the hospital was not made available for audit review. The accuracy of the revenue reported under the hospital fees disclosed in the financial statements could not be confirmed.

A number of 21 items reflected in the IFMIS as cash transactions contrary to County financial accounting and reporting manual section 6.7.6 which prohibits cash payments to independent contractors and hence it's not possible to determine what the expenditures were. This was in breach of the procurement regulations hence the propriety of the money could not be confirmed.

The county used non-prequalified consultancy firm for design, documentation and supervision of the governor's and deputy governor's office.

6. BUDGETARY GAPS

The department of Agriculture, livestock, fisheries and cooperatives did not have a budget for agriculture materials, supplies and small equipment but ended up spending Ksh 47,448,120. Further there was a variance e of Ksh 6,089,265 between the vote book status report and the actual payments.

The department of health budgeted to spend Ksh 233,259,166 during the year under review however the department spent only Ksh 151,117,083 leading to under absorption of Ksh 82,142,083 with no justification. Additionally, the department budgeted to spend Ksh 398,833,438 on the use of goods and services but only spent Ksh 209,843,462 resulting to under absorption of Ksh 188,989,976.

According to County Allocation of Revenue Act No.23 of 2017 section 5(1) (e) on conditional allocations for leasing of medical equipment as set out in column F of the second schedules 95,744,681 was to be included in the budget estimates according to the intergovernmental agreement in line with article 187 of the constitution. In addition to that, no intergovernmental agreement on leasing of medical equipment was availed for audit verification. The CE was in breach of the law and the value for money and supply and use of leased medical equipment could not be determined.

7. WAGE BILL MANAGEMENT

The county government was not able to provide the staff establishment list of permanent staff during the year, list of permanent staff who joined the CG during the year under review and list of permanent staff who excited the CG during the year under review. It is not clear how the CG continues to recruit and manage a work force of 2,233 without staff establishment. Additionally, basic salary of permanent increased by Ksh 529,876,618 form Ksh 763,472,525 as at June 30th 2017 to Ksh 1,293,349,143 representing an increase of 69% with no explanation of the increased expenditure. This was in breach of law on staff establishment and management of human resource.

Examination of records revealed that salary advances amounting to Ksh 2,174,369 issued had not been recovered during the year under review and some advances were outstanding for more than two years which is in breach of the law.

Irregular overpayment of an amount of Ksh 1,363,200 as salary, house allowance, commuter allowance which was above what was stated in his appointment letter. The officer was also paid extraneous allowance totalling to Ksh 540,000 which was not in his appointment letter. The recovery of the excess money could not be ascertained

ACHIEVEMENTS

1. Automation of revenue collection system. The County is currently using POS system as the revenue collection system.

2. Use of enforcement to enhance increased revenue collection

3. Introduction and innovation of new revenue streams.

4. The county government implemented key flagship projects with an aim of improving service delivery at County level. The projects include: Ultra-modern hospital plaza with a bed capacity of 160 patients, construction of a modern and expanded mortuary at Vihiga referral hospital underway to ease congestion at the existing facility.

5. The County is in the process of developing a comprehensive asset management policy and hence the county acquired an electronic asset register. The County has also embarked on tagging of assets and update of electronic register which was expected to be concluded in the FY 2017/18.

6. The county allocated more than 32% of their budget to development expenditure which exceeded the minimum threshold of 30% as stipulated by the Public Finance Management Act, 2012.

CHALLENGES

1. The county experienced cash flow problems as the funds were not disbursed on time from the national treasury hence low absorption rate due to delay in implementation of projects.

2. Accounts receivables increased from Ksh 15,824,211 to Ksh 57,814,027 due to lack of commitment by staffs in surrendering imprests. Departments also failed to surrender transfers to their operation accounts.

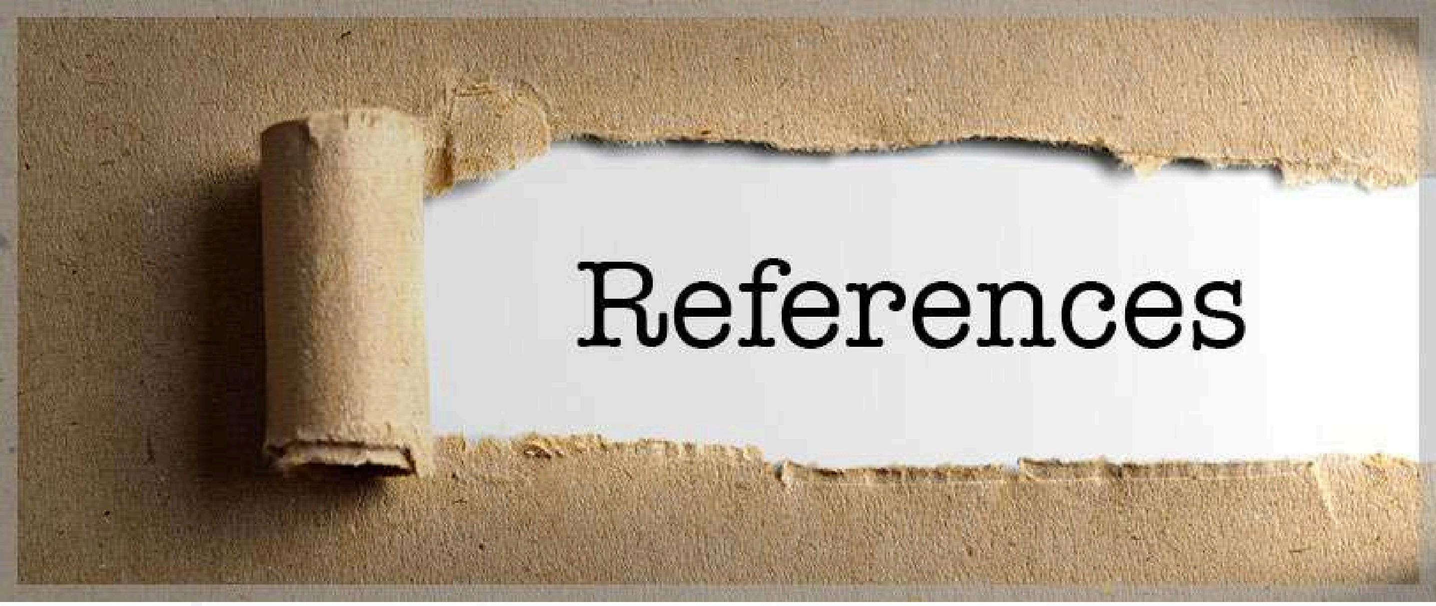
3. Poor local revenue collection. Of the projected revenue the County collected 65%. —What are the measures put in place to increase revenue streams and collection?

4. Challenges with IFMIS due to downtimes and poor internet connectivity hence has led to delayed payments of contractors and payments done outside IFMIS.

5. Delay in approving the budget for FY 2017/18 and reallocations of vote heads without adherence to the laid down regulations.

RECOMMENDATIONS

1. The County government should adhere to section 107 (2)b of the Public Finance Management Act, 2012, that requires that over the medium term a minimum of 30% of the County government budget shall be allocated to development expenditure.
2. Accounting officers in the county should adhere to proper documentation and reporting standards recommended by the Public sector accounting boards as stipulated in the Public finance management act.
3. The County government should adhere to section 136(1) of the public finance management act 2015 which requires counties to maintain and have an updated fixed asset register.
4. IFMIS payment schedule revealed that various suppliers were irregularly paid through cash a total of Ksh 381,841,224 which was in breach of the law. The County government should adhere to section 104 (1) of PFM act 2012 which requires the county treasury to ensure proper management and control of and accounting finances of the county government.
5. The County government should adhere to section 25 (1) (b) of the County PFMR 2015 which stipulates that compensation of employees shall not exceed 35% of the county government total revenues which was exceeded by Nairobi County government by 14%.It is a great concern that 49% of the revenue was use for renumeration of workers at the expense of development projects.
6. All payment should be made through IFMIS and there should be no variance between IFMIS and bank account statements as required by section 93 (5) of the PFM Act 2012 and section 109 (1) of the county PFMR.
7. The public investment management guidelines should guide project implementation at county level to ensure proper project implementation and clear monitoring and evaluation frameworks.



REFERENCES

i. Vihiga County Auditor General Reports 2017/18
ii. Public Audit Act,2015
iii. Public Finance Management Act,2012
iv. Public Procurement Act ,2015
v. Public Finance Management County Government Regulations,2015
vi. County Government Act ,2012

National Taxpayers Association

pesa zetu, haki yetu

Diani Road Delight Apartments
P.O. Box 4037-00506 Nairobi, Kenya
Phone: +254-701-946557 / +254-734-500940
E-mail: admin@nta.or.ke