

REPUBLIC OF KENYA



REPORT
OF
THE AUDITOR-GENERAL
ON
THE FINANCIAL STATEMENTS OF
COUNTY GOVERNMENT OF VIHIGA

FOR THE SIXTEEN (16) MONTHS
PERIOD ENDED 30 JUNE 2014

REPORT OF THE AUDITOR GENERAL ON VIHIGA COUNTY GOVERNMENT FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Vihiga County Government set out on pages 7-39, which comprise the statement of financial assets and liabilities as at 30 June 2014, and the statement of receipts and payment, the statement of cash flows 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 8 of the Public Audit Act, 2003. 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Public Sector Accounting Standards (Cash Basis) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 7 of the Public Audit Act, 2003.

Auditor General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 9 of the Public Audit Act, 2003. The audit was conducted in accordance with the International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my adverse audit opinion.

Basis for Adverse Opinion

1. Accuracy and Completeness of the Financial Statements

The financial statements as at 30 June 2014 were not supported by the General Ledger and Trial Balance as required. Further, the Cash book was not updated and the statement of cash flows was not included. In addition, the financial statements for the 4 months ended 30 June 2013 were not submitted for audit. The statement of receipts and Payments reflects total payments of Kshs.2,497,428,379,.00 which differs with actual vote book summary expenditure of Kshs.2,509,131,215.00. The resulting difference of Kshs.11,702,836.00 has not been reconciled or explained.

Material variances were noted between the financial statement figures and the underlying records while some items were not supported.

Consequently, the accuracy and completeness of the financial statements for the year ended 30 June 2014 could not be confirmed.

2. Unverified Opening Balances

Comparative figures included in the financial statement for the year ended 30 June, 2014 totaling Kshs.170,128,945 comprising of cash and cash equivalents were not supported by bank reconciliation statements and financial statements. In the circumstances, the accuracy of the Opening balances reflected in the financial statements for the year ended 30 June 2014 could not be confirmed.

3. Fixed Assets Register

Assets totaling Kshs.550,002,782 were reportedly acquired in the year under review. However, the Fixed Assets register and supporting documents for the items amounting to Kshs.11, 940,509 were not provided for audit review. Further, the process of taking over of defunct local authorities fixed assets had not been finalized by 30 June 2014. As a result, the completeness, location, ownership and accuracy of the fund assets balance could not be confirmed as at 30 June 2014.

4. Cash and Cash Equivalent Balances

The statement of assets reflects cash and cash equivalents balance of Kshs.639,932,574.00 as at 30 June 2014. However, Included in the balances for cash and cash equivalent of Kshs.639,932,574.00 is a balance at a Central bank account of Kshs.248,506,169.00 which had not been reconciled and cash in hand amounting Kshs.1,195,900.00 was not supported with a board of cash survey report. Further, the relevant cash books were also not updated.

In addition, the Government cash management policy which restricts weekly cash withdrawals to a maximum of Kshs.700,000.00 was not adhered to with monthly cash withdrawals in some instances exceeding Kshs.32,000,000.00 where hotels were paid in cash amounts exceeding one million each.

In view of the foregoing, the cash and cash equivalents balance of Kshs.639,932,574.00 could not be confirmed as at 30 June 2014.

5. Unsupported/Understated expenditure on Domestic and Foreign Travel and Subsistence Expenses

The statement of receipts and payments reflects expenditure on use of goods and services of Kshs.674,164,183.00 as at 30 June 2014. However, the supporting documents for Domestic Travel and Subsistence of Kshs.138,157,662.00, foreign travel of Kshs.29,221,048.00 and training expenses of Kshs.84,932,263.00 were not made available for audit verification. Further, the amount reportedly spent on foreign travel of Kshs.29,221,048.00 is grossly understated given that the County Assembly alone spent more than Kshs.70,000,000.00 on foreign travel to Uganda, Israel, Tanzania, and Singapore.

Consequently, the reported amounts on Use of Goods and Services of Kshs.674,164,183.00 could not be confirmed as fairly stated as at 30 June 2014.

6. Outstanding Funds transfer from National Government

Included in the Account balance of exchequer release and transfers of Kshs.2,967,232,008 is an amount of Kshs.172,799,011.55 erroneously recovered by National Government as refund of salaries paid to officers seconded to the Counties. The management have not explained why the over recovery remain outstanding.

In the circumstances, the accuracy of the receipts of Kshs.2,967,232,008 as at 30 June 2014 could not be confirmed.

7. Ward Bursary Fund

The County Government disbursed under development expenditure Kshs.30,000,000.00 as ward bursary Fund without an approved budget further, no approved policy on the management of the bursary fund. In addition, books and records of accounts together with expenditure returns were not made available for audit verification.

In view of the foregoing, it has not been possible to confirm that the County Government got value for money for the bursary fund as at 30 June 2014.

8. Outstanding Imprest

The statement of assets reflects imprest and advances of Kshs.10,741,787.00 as at 30 June 2014 which differs with the Imprest register figure of Kshs.45,591,364 and Note 24D amount of Kshs.6,049,266.00. The resulting differences between the three sets of records have not been reconciled or explained.

The imprest register was poorly maintained such that some temporary imprests were not recorded. Further, a number of officers held more than one imprest at a time contrary to the Government Finance Regulations and Procedures while others held imprest for more than the allowed period.

In the circumstances, the accuracy of the outstanding imprest and advances of Kshs.10,741,787.00 could not be confirmed as at 30 June 2014.

9. Car Loan and Mortgage Scheme

The County Assembly launched the Scheme with Kshs.200 million which was disbursed to the members of the County Assembly (MCAs). However, the cash book and bank reconciliation statements for the funds were not made available for audit review. Further,

evidence of log books for vehicles purchased under the Scheme which should be jointly owned by the County Government and the MCAs were not made available for audit verification. In addition, the disbursement schedule reflects Kshs.164,800,000 and a bank balance of Kshs.5,643,365.50. The difference of Kshs.29,556,635 remain unaccounted for.

In the circumstances, the accuracy of the car loan and mortgage scheme fund balance of Kshs.5,643,365 as at 30 June 2014 could not be confirmed.

10. Under-Collection of Revenue

The County's statement of receipts and payments (shown as Kshs.113,709,508) shows that Other Receipts (local revenue collections) of to Kshs.115,364,075.00 against a budgeted amount of Kshs.197,000,000.00 resulting to an under-collection of Kshs.81,635,925.00 (41%) wrongly reported in the accounts as Kshs.95,664,000.00. No reasons were given for the under-collection.

In the circumstances, the accuracy and completeness of the local revenue collection of Kshs.115,364,075.00 as at 30 June 2014 could not be confirmed.

Adverse Opinion

In my opinion, because of the significance of the matters discussed in the Basis for Adverse opinion paragraph, the financial statements do not present fairly the financial position of the Vihiga County Government as at 30 June 2014, and of its financial performance and of its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards and do not fully comply with the County Government Act, 2012 and the Public Finance Management Act, 2012.

Other Matter

Low Budget Absorption Rate

The County Development Expenditure budget for the year 2013/204 was Kshs.1,142,797,876.00 During the same period only Kshs.515,754,500 was spent resulting into under-expenditure of Kshs.627,043,376.00. No reason was given for the low absorption rate. My opinion is not qualified with respect to this matter.



Edward R. O. Ouko CBS
AUDITOR-GENERAL

Nairobi

3 June 2015