

**REPUBLIC OF KENYA**



**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL OPERATIONS**

**OF**

**VIHIGA COUNTY EXECUTIVE**

**FOR THE PERIOD  
1 JULY 2013 TO 30 JUNE 2014**

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# **REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL OPERATIONS OF VIHIGA COUNTY EXECUTIVE FOR THE PERIOD 1 JULY 2013 TO 30 JUNE 2014**

## **EXECUTIVE SUMMARY**

### **Introduction**

The Auditor-General has the mandate under Article 229 of the Constitution to audit and report on the financial operations and accounts of the County Government annually.

### **Audit Objectives**

The audit objective was to review the financial operations of the County Executive and whether the expenditure constituted a proper charge to public funds and confirm general adherence to public financial controls in the operation of the County Government Executive.

### **Terms of Reference**

The terms of reference set out included verification and confirmation of transactions in respect of but not limited to the following areas;

- Vouching for compliance, accuracy, propriety.
- Regularity of procurements and adherence to procurement legislation.
- Review of local and foreign travel expenses.
- Imprest management and status.
- Revenue collection, custody and record keeping.
- Review of IT environment.
- IFMIS implementation and management.
- Acquisition of assets.
- Contract awards, execution and payments.
- Cash and bank balances.
- Review of internal controls of the County Executive.

### **Key Audit Findings**

#### **1.0 Un-vouched Expenditure**

The County had budgeted to spend approximately 3.2 billion shillings. However, records availed indicate the total expenditure incurred during the year amounted to approximately Kshs.2,439,803,534 composed of approximately Kshs.1,908,942,724 recurrent expenditure and Kshs.530,860,810 on development vote.

The expenditure could not be adequately vouched because the IFMIS system was not reliably operated during the period. Further, no bank reconciliations were being generated and even trial balances were not in place. Specific payment vouchers could also not be traced through the system. As a result, it has not been possible to verify the expenditure incurred by the County Executive for the year ended 30 June 2014.

## **2.0 Irregular Procurement of Goods and Services**

### **2.1 Irregular procurement /Unsupported Expenditure**

The County Executive spent more than Kshs.26, 000,000.00 on Seminars and workshops. However, most of the payment vouchers were not adequately supported. Further, no evidence was adduced to confirm that the services were competitively sourced.

Consequently, it was not possible to confirm how the prices were determined and whether they were fair and the County got value for money in the transactions.

### **2.2 Failure to Prepare Procurement Plans by Ministries**

A number of ministries including Health, Finance, Gender, Lands and Executive department failed to prepare procurement plans as required by the Procurement and Disposal Regulations, 2006. This implies that the total expenditure of Kshs.530,860,810 incurred by the various ministries under the development votes was irregular. Without a procurement plan, it was not possible to confirm the necessity and authenticity of all the procurements made during the period ended 30 June 2014.

### **2.3 Irregular Expenditure on Procurement of Uniforms**

A supplier was paid an amount of Kshs.7,212,938 in respect of supply of uniforms for distribution to various sporting teams in the county. However, it was not clear how the amount was arrived at as the budget was not specific. Further, the expenditure was incurred in total disregard of the procurement regulations as no competitive bids were invited and there was no evidence of the existence of circumstances calling for the use of alternative procurement methods.

### **2.4 Irregularities in Procurement of Consultancy Services**

The County Government incurred expenditure on consultants and legal services totaling Kshs.63,290,000.00 without adherence to Public Procurement regulations which require competition and in a number of cases without proper supporting documents. Further, even though, copies of agreements availed indicated that a legal firm was to formulate and draft 15 County Legislation bills at a cost of Kshs.29,250,000.00 and the formulation and drafting of 20 County Policies and Regulations at a cost of Kshs.19,950,000.00 respectively, however only five bills and five policy documents were availed for audit review.

Both agreements provided for payment of more than 50% of the total agreement prices for the delivery of less than 35% work and also provided for large deposits.

The unsupported expenditure on Consultancy amounts to nugatory expenditure which remains unaccounted for.

## **2.5 Irregular Procurement of Equipment and Furniture**

The County Government incurred expenditure amounting to Kshs.37,994,354.00 on procurement of various items of equipment and furniture without inviting competitive bids as required by the Public Procurement and Disposal Act, 2005 and Regulations, 2006.

## **2.6 Advance Payment for Construction of a Slaughter-House**

A construction firm was paid an amount of Kshs.19,477,906.00.00 as part payment for the construction of the “final phase” of a slaughter house at Ukwanda in Luanda sub-County whose Contract amount/price was Kshs.29,050,253.00 with a Contract duration of ten months commencing in April 2014 and expected completion in February 2015.

A visit to the construction site in July 2014 indicated only fencing works was complete though the Summary of payment on Account signed by county officers dated 6 June 2014 valued the works at Kshs.17,026,376.00 a value that could not be confirmed on the ground.

No satisfactory explanations were given for this unsatisfactory state of affairs.

## **2.7 Procurement of Road Works**

Procurement records including copies of advertisements, all procurement minutes and award correspondences, in support of a total expenditure on various road works amounting to Kshs.150,000.000.00 were not made available for audit review.

It was not possible to confirm whether the works were procured competitively neither as required nor whether the Government received value for money out of the expenditure.

## **2.8 Construction of former Town Hall**

In June, 2013, the County Government of Vihiga revived construction of the former town hall building. Request for quotations method of procurement was used to identify and award the works at a price of Kshs.29,947,772. At the time of this audit, approximately 95% of the work was completed but the contractor who was still on site had been paid a total of Kshs.36,991,723.00 which exceeded the contract price of Kshs.29,977,772.00 by Kshs.7,043,951.00 or 24% increase. This excess payment was neither supported by a variation order nor explained.

Further, given that the amount involved exceeded the maximum allowed for the request for quotations method, and therefore called for open tender method, it was not clear why the former method was used.

## **2.9 Filming and Production of Promotional Investors video documentary**

Shooting, editing and production of the Vihiga County Investors video film documentary and related promotional works was undertaken by a Consultancy firm that was paid Kshs.775,000. However, no satisfactory explanation was received as to how this service provider was identified because copies of quotations, procurement minutes and other

procurement documents and evidence of service provided were not made available for audit review.

## **2.10 Irregular Procurement of Maize and Loss of funds**

The County without inviting competitive bids as required incurred expenditure of Kshs.11,728,000.00 on the procurement of maize purportedly for distribution to schools under a schools feeding program. Details of the feeding program were not disclosed as the Ministry of Education was not involved and the relevant County Legislation had not been passed. Further, the whole maize consignment was condemned by the Department of Public Health as not fit for human consumption and recommended for destruction before it could be distributed to the schools. A loss of the Kshs.11,728,000.00 was occasioned. The expenditure had also not been budgeted for during the year.

## **2.11 Irregular Procurement of Fertilizer**

The County Government incurred expenditure on the supply and delivery of fertilizer at subsidized cost of Kshs.10,385,200. However Payment vouchers in respect of only 3,793 bags of fertilizer were availed for audit review even though a transporter was paid a total of Kshs.1,596,000.00 for the distribution of 4,333 bags to various destinations. The discrepancy between the two figures was not explained and the details of these destinations were also not disclosed.

Tender documents including copies of advertisements, quotations, minutes of procurement committees, list of beneficiaries were not provided for audit review. Ledgers were not opened to facilitate recovery and the management of the intended revolving fund.

## **2.12 Purchase of Mobile Phones for Chief Officers**

Payment through Imprest Warrant No. 1966009 dated 30 April 2014 for Kshs.759,990 to purchase 10 Samsung mobile handsets for Chief Officers through single sourcing was not supported.

## **3.0 Excessive and Irregular Air Travel**

No documents were availed to confirm how a travel agent to whom a total amount of Kshs.14,000,000.00 was paid in respect of air tickets was identified.

Specific reasons for travel were in a number of cases not indicated and there was also no documented policy as to which officer was entitled to air travel.

In view of the foregoing, it was not possible to confirm the propriety of the expenditure of Kshs.14,000,000 for the period ended 30 June 2014.



#### **4.0 Outstanding Imprest**

As at 30 June 2014 various officers held a total outstanding imprest of Kshs.56,980,992.00 contrary to the existing financial regulations and procedures on imprests.

No efforts appear to have been taken to recover the overdue imprest from the officers' salaries.

#### **5.0 Expenditure on Miss Tourism Kenya 2015**

A Commitment fee of Kshs.10,000,000 was paid to Ms Miss Tourism Kenya Limited (MTK) on 9 March, 2014 to host Miss Tourism Kenya 2015 in the County of Vihiga at a cost of Kshs.26 million.

However, the expenditure was charged in the Executive vote as the Ministry of Industrialization, Trade and Tourism which did not have any allocation for such expenditure.

In the year 2014/2015, the Ministry provided for the same but the County Government failed to approve the allocation. Further, no evidence that expenditure was approved by the cabinet has been seen.

Cost Benefit Analysis prepared by the Ministry indicates that 1500 people are expected with each spending an average of Kshs.2000. A total of Kshs.3,000,000 may be realized. However, the county has no capacity (accommodation-wise) to accommodate such a huge number. Further, the agreement appears not to hold MTK responsible for any failures which may be realized in the event. The agreement also fails to mention the Kshs.10,000,0000 commitment fee paid in case the event fails to materialize. There was no guarantee that the amount paid out by the government is recoverable and thus there is exposure to possible loss.

#### **6.0 Revenue Collection**

##### **6.1 Under-Collection of Revenue and Un-Reconciled Records**

Records at the revenue office indicated that a total of Kshs.3,053,104.00 was collected during the month of April 2014 a figure that differed with that in the accounting department of Kshs.4,103,504.00. No explanation was given for the difference of Kshs.1,050,400.00 which had not been reconciled. Further, the revenue ledger indicated that the amount collected from the hire of the tractor declined from Kshs.3,901,650.00 collected in the year 2012/2013 to only Kshs.362,000.00 in the year 2013/2014. No adequate explanation was given for this drastic decline.

The revenue records appear incomplete and there is a high likelihood of losing money through these un-reconciled and incomplete records.

## **6.2 Under Collection of Revenue**

The county Government collected revenue from Other receipts amounting to only Kshs.113,709,508.00 against a budgeted amount of Kshs197,000,000.00 resulting to unexplained under-collection of Kshs.83,290,492.00.

## **7.0 Expenditure on Integrated Financial Management Information Operation (IFMIS)**

Staff were paid more than Kshs.10,785,000.00 for travelling to Kisumu to update IFMIS. However, the system was not able to generate timely reports for management and audit verification.

The propriety of the expenditure of Kshs.10,785,000.00 that was made largely in cash and without relevant supporting documents could not be confirmed.

## **8.0 Cash and Bank Balances**

During the year, the county Government operated six bank accounts; however,

- the cash books were never periodically balanced and checked by a responsible officer
- proper bank reconciliations were never carried out
- there was no documented cash limit policy in place, a phenomenon which led to excessive cash transactions.
- cash withdrawals from the Kenya Commercial Bank during the two months of April - May 2014 exceeded Kshs.33,000,000.00 and Kshs.39,500,000.00 respectively which was excessive and contrary to the existing financial regulations of a maximum Kshs.700,000 per week.
- cash withdrawals from the Kenya Commercial Bank account amounting to Kshs.4,950,000.00 were not accounted for as they had not been entered in the cashbooks
- other cheque payments from the same account to third parties amounting to Kshs.14,147,458.00 were likewise not posted to the cashbooks

As a result, it was not possible to confirm the correct cash and bank balances.



**Edward R.O. Ouko, CBS**  
**AUDITOR-GENERAL**

**Nairobi, 25 May 2015**

**DETAILED AUDIT REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL OPERATIONS OF VIHIGA COUNTY EXECUTIVE FOR THE PERIOD 1 JULY 2013 TO 30 JUNE 2014**

**Detailed Audit Findings and Recommendations**

**1.0 Implementation of IFMIS/G-Pay System**

**1.1 Incomplete Records-Integrated Financial Management Information System (IFMIS/G-Pay)**

During the financial year 2013/2014, the County had budgeted to spend a total of approximately 3.2 billion shillings. Records availed indicate the total expenditure incurred during the year amounted to approximately Kshs.2,439,803,534.00 composed of approximately Kshs.1,908,942, and Kshs.530,860,810.00 on recurrent and development votes respectively.

However, the expenditure could not be adequately vouched because the IFMIS system was not reliably operated during the period despite expenditure of Kshs.740,600.00 having been incurred by the County Government on training of six (6) staff on operation of the system as detailed below;

IFMIS training, 18 -24 Aug. 2013	232,500
Attend IFMIS training for 14 days	94,000
“ “ “	115,000
“ “ “	80,000
“ “ “	87,000
“ “ “	87,000
Attend IFMIS training for 7 days	45,000
<b>IFMIS Training Expenses</b>	<b>740,500</b>

Given the circumstances and general lack of audit trail, examination of the general ledger revealed that a total amount of Kshs.206,907,801.00 appear to have been paid out without any payment vouchers.

All creditors' balances could not be located in the system and therefore the balances and validity of payments to creditors could not be confirmed.

No bank reconciliations were being generated and even trial balances were not in place among other omissions. Specific payment vouchers could also not be traced through the system. As a result, not all material vouchers were made available for audit review.

## **Recommendations**

- It is imperative given the unreliability of the IFMIS system for the county Government to operate parallel systems to ensure completeness.
- The trained staff should enhance the effectiveness of the IFMIS System.
- The IFMIS modules not activated should be activated to enable full and reliable production of financial records.

### **1.2 Failure to Institute Restricted Access and Segregation of Duties Controls; (IFMIS)**

The passwords belonging to the various functions of the Integrated Financial Management Information System (IFMIS) appear to be shared among several officers at the County thus compromising the very aim for the passwords of restricted access.

## **Recommendations**

- Controls related to both Segregation of duties and restricted access should be strengthened and enforced appropriately.
- The County Government should develop and Implement IT Policy and Strategy to guide IT Operations

### **1.3 Failure to adhere to vote Budgets/ unsigned payment vouchers**

During the year, expenditure of the county was not according to the ministries allocations but was centralized under the county chief finance officer who would draw money from any ministry without regard to the budgets. Also most of the payment vouchers representing the total expenditure of Kshs.2,439,803,534.00 lacked necessary signatures like those of the Authority to Incur Expenditure (AIE) holders and accountant. Thus the expenditure was not authorized.

## **Recommendations**

- Ministries should strictly spend within their approved budgets
- All prerequisite authorities should be sought and obtained before payments are made.
- Investigation should be carried to find out why payments were effected without authority.
- Recover any unauthorized payments from the responsible officers.

### **1.4 Extravagant Expenditure on IFMIS Operation**

Payment vouchers availed for audit reveal what appears a clear case of extravagance, that staff were paid more than a total of Kshs.10,785,000.00 for travelling to Kisumu to update IFMIS despite the system not being able to generate a lot of information to

facilitate audit as highlighted before and decision making. The gravity of the matter is demonstrated by incidences where the whole accounting office appears to have been in Kisumu on days for IFMIS duties. Given that all these payments were in cash and the inherent weaknesses of control over such cash payments, it was not possible to confirm authenticity of the payments.

Treasury justified the expenditure by attributing the same to poor network connectivity in Vihiga area and hence reason to open an office in Kisumu and operate IFMIS therein. However, no evidence was provided to show that the County Government attempted to address poor network connectivity in the County.

### **Recommendations**

- The County Government should liaise with the network provider to put in place strong network in the County so that frequent travels to Kisumu by the Treasury staff can be avoided.
- Management should investigate these excessive payments and recover all amounts not justified.

## **2.0 Irregular Procurement of Goods and Services**

### **2.1 Failure to Prepare Procurement Plans by Ministries**

Ministries of Health, Finance, Gender, Lands, Executive department failed to prepare procurement plans as provided in the Public Procurement and Disposal Regulations, 2006. The total expenditure of Kshs.515,717,500.00 incurred by various ministries under the development votes was therefore irregular. Without a procurement plan, it was not possible to confirm the necessity and authenticity of all the procurements made during the year.

### **Recommendation**

- All departments must in 2014/2015 scrutinize their allocations (approved budget) carefully and prepare a detailed procurement plan which includes; services, works and goods to be supplied, cost for each item, method of procurement and adhere to the plan in the year

### **2.2 Unsupported Expenditure on Workshops and Seminars**

The procurement methods used to identify venues for seminars and workshops over which expenditure amounting to Kshs.26, 055,496.00 was incurred was not clear. Many of the payment vouchers were also not adequately supported.

Without evidence of competitive bids, it appears that the public Procurement Regulations were not adhered to and therefore could not confirm how the prices were determined and whether they were fair and the County Executive got value for money in the transactions.

## **Recommendations**

- Money paid out without proper support documents should be recovered from payees.
- Management should ensure that procurement regulations are adhered to and action is taken against non-complying officers.

### **2.3 Irregular Procurement of Uniforms**

A supplier was paid an amount of Kshs.7,212,938.00 in respect of supply of uniforms for distribution to various sporting teams in the County. However, it was not clear how the amount was arrived at as the budget was not specific. Further, the expenditure was incurred in total disregard of the procurement regulations as no competitive bids were invited and there was no evidence of the existence of circumstances calling for the use of alternative procurement methods. No explanations were given for disregard of procurement regulations. It was not possible to confirm whether the county received value for money from the expenditure.

## **Recommendations**

- Delivery and distribution to beneficiaries should be evidenced by signed schedules
- Proper procurement procedures must be followed to avoid uneconomical use of county funds in all future procurements.
- Adequate records should be maintained to account for all expenditure and any amount not accounted for should be recovered.

### **2.4 Irregularities in Procurement of Consultancy Services**

Audit revealed the following un-satisfactory matters concerning expenditure on consultancy and legal services totaling Kshs.63,290,000

Among the payees were legal services firms and capacity building consultants, However, copies of agreements made available indicated that the legal services that were to be provided by the advocates' firm included the formulation and drafting of 15 County Legislation bills at a price of Kshs.29,250,000.00 and the formulation and drafting of 20 County Policies and Regulations at a price of Kshs.19,950,000.00 respectively. It was not clear why these services could not be provided by the County's legal officer who is an employee of the County Government which would have saved the county the amount involved.

- Also, agreements appear to have been entered into in disregard of the procurement regulations as the methods of procurement used were requests for proposals and not the required open tender given the amounts involved. Further, procurement documents including tender opening, evaluation and award minutes were not availed for audit rendering it impossible to confirm whether due process was adhered to. Notifications to the unsuccessful bidders were likewise not evidenced.

- Both agreements also appear to have been drawn to the favor of the advocates firm as they both provided for payment of more than 50% of the total agreement prices for the delivery of less than 35% work and also provided for large deposits.
- Two payments adding up to Kshs.27,950,000.00 had so far been made to the advocates in respect to these agreements. However, the payments supporting documents were for unknown reasons mixed up such that one would not tell which one concerned the bills and the policies respectively. The documents indicated that five bills and five policy documents had been completed although only four bills were available at the time of the audit. The documents appeared to be misleading and only meant to fulfill the agreements' terms for payment.
- The firm of advocates had also been paid a total of Kshs.8,640,000.00 for conducting a five day training, capacity building and appraisals of County executive members. However, no documents to support the method of procurement used and delivery of services. The expenditure of Kshs.8,640,000.00 thereof remain unaccounted for.
- The payment to a consultancy firm amounting to Kshs.10,000,000.00 in respect of reorganization of the County Public Service was not supported.

Two payments adding up to Kshs.1,524,000.00 were made to officers in respect of recruitment of county officers despite a consultancy firm having been paid a total of Kshs.10,700,000.00 for the same work. The payments to the officers therefore remain unaccounted for.

## **Recommendations**

- The unsupported expenditure on Consultancy which amounts to nugatory expenditure remains unaccounted for and should be recovered.
- Management should ensure that the County's legal officer is used in it's legal matters to avoid unnecessary expenditure.
- Public Procurement regulations which require competition in all procurements should be adhered to.
- The amount of Kshs.1,524,000 paid for recruitment of staff to County officers should be recovered as consultants had been paid for the same activity.

## **2.5 Irregular and Unsupported Procurement of staff Insurance Services**

A brokerage firm was paid an amount of Kshs.9,750,000.00 in respect of provision of staff insurance services. All the relevant Procurement documents including tender documents and authorizing minutes were not availed for audit review. The audit also revealed that most members of staff interviewed were not aware of the scheme and none had benefited so far despite payment having been effected way back in January 2014.

## Recommendations

- Management should avail a copy of the policy document or recover the unsupported amount of Kshs.9,750,000.00.
- Management should ensure that Government procurement regulations are adhered to in all future procurements.
- Proper communication to staff on the existence of the insurance facility should be done for staff to use the insurance scheme.

## 2.6 Irregular Procurement of Equipment, Furniture and other items

The County Government in apparent contravention of the procurement regulations incurred expenditure amounting to Kshs.65,335,684.00 on procurement of various items of equipment and furniture without inviting competitive bids. Further, no stores records in form of a ledger and an up to date assets register were maintained to account for the assets so procured. Without competitive bids, it was not possible to confirm how the prices paid for the assets concerned were determined and whether they represented fair value. Finally, without proper stores records, it was not possible to confirm whether all the assets paid for were delivered and were in the County's custody.

## Recommendations

- Assets records in form of ledgers and a fixed Register should be put in place, and updated regularly.
- Management should ensure that Public Procurement regulations requiring competition is adhered to in all procurements.
- Recover costs of all items not delivered and paid for by the county Government.

## 2.7 Purchase of Bulk Fuel

Fuel worth Kshs.6,100,000 was not accounted for in that the department failed to maintain a fuel register. Further, the fuel suppliers failed to produce any records to account for the fuel delivered.

Breakdown of the fuel purchased is detailed below:

L.P.O No.	Date	Quantity	P.V No.	Amount
0841786	29.6.14	Pump Price	02999	1,500,000
0841787	27.6.14	16917 lts	003000	1,800,000
2080034	30.1.14	Pump Price	001025	1,000,000
0864033	-	Pump Price	000322	800,000
No L.P.O	-	4743 Lts	001226	500,000
No L.P.O	-	-	002200	500,000
				<b>6,100,000</b>



Without fuel records including a fuel register, it was not possible to confirm if the fuel paid for was delivered and used for official purposes.

### **Recommendations**

- An updated fuel register should be maintained and use of authorized detail orders for drawing of fuel be effected.
- The amounts paid for fuel should be accounted for or otherwise the amount expended be fully recovered from the payees and the authorizing officers.

### **2.8 Purchase of Mobile Phones for Chief Officers**

Imprest amounting to Kshs.759,990 was used to purchase mobile phones for Chief Officers and though through Payment Voucher No. 002188, the officer accounted for the imprest showing that 10 Samsung handsets were purchased from a supplier. However, audit revealed the following unsatisfactory matters;

- The procurement was not done competitively hence was irregular;
- Authority to purchase phones for officers was not documented;
- The phones were not entered in the stores records and thus remain unaccounted for;
- Recipients of these handsets failed to sign any schedule to confirm that they received the phones;
- The use of the imprest facility in procurement amount to abuse of the imprest facility and the prices appear exaggerated.

### **Recommendations**

- Beneficiaries of the mobile phones should duly acknowledge through signatures or the amounts so paid be recovered from the payee.
- Appropriate stores records should always be maintained.
- Public procurement regulations on competitive procurement should be adhered to
- Action should be taken against officers who may have intentionally contravened procurement regulations to deter future recurrence.

### **2.9 Irregular construction of former Town hall**

Public Procurement Regulations in operation require all procurements to be sourced competitively and open tender is required in procurement of civil works in excess of Kshs.6,000,000.

In June 2013, the County Government of Vihiga revived construction of the former town hall building. Request for quotations method was used where a supplier was identified as the most responsive bidder among the three bidders who provided quotations and was awarded the contract at Kshs.29,947,772. At the time of this audit, approximately 95% of the work was completed and the contractor was still at the site. However, a total of Kshs.30,017,924.55 had been paid as detailed below;

The amount paid already exceeds the contract sum of Kshs.29,947,772. As at 30 June 2014 the project was still incomplete and the work was on-going. The Engineer in charge explained that there were some work variations; however, no details and approval for such variations was provided.

Further, given that the amount involved exceeded the maximum allowed for the request for quotations method, and therefore called for open tender method, it was not clear why the former method was used.

### **Recommendations**

- Management should confirm total amount paid for the project and provide approval of the variation.
- In future, the County should adhere to thresholds as provided in the Procurement and Disposal Regulations, 2006.
- Recover any monies paid for works not completed.

### **2.10 Irregular Rehabilitation Works at Ikumu Valley**

Public Procurement Regulations in operations require all civil works priced above Kshs.6,000,000.00 to be procured through open tender. However,

- There were no tender document in support of expenditure amounting to Kshs.23,779,280 paid to a construction firm in respect of rehabilitation works at Ikumu valley meaning that the work was irregularly sourced without competition.
- Further, the bills of quantity supporting the expenditure point to evidence of overpricing as demonstrated by the price of bush clearing per square metre at Kshs.800 instead of the known market rate of less than Kshs.10.00 per square metre while that of supply of rough stones was at Kshs.2,800.00 instead of average of Kshs.1,500.00 per cubic metre.

### **Recommendations**

- The County Government should adhere to proper procurement procedures particularly in regard to threshold matrix where open tender is preferred in a case where the value of works and services is above Kshs.6,000,000.00
- Management should follow up on the expenditure and recover amounts that were overpriced.

## **2.11 Irregular Procurement of Road Works**

Tender documents among them copies of advertisements, all procurement minutes and award correspondences, in support of a total expenditure on various road works amounting to Kshs.150,000.000.00 were not availed for audit review.

It was therefore not possible to confirm whether the works were procured competitively nor whether the County Government received value for money out of the expenditure.

### **Recommendations**

- All expenditure should be supported by Tender/procurement documents for the works concerned.
- All unsupported works expenditure should be recovered.
- The County Government should adhere to proper procurement procedures particularly in regard to threshold matrix where open tender is preferred in a case where the value of works and services is above Kshs.6,000,000.

## **2.12 Irregular Construction of a Slaughter-House**

Government Procurement regulations in force require civil works procurement in excess of Kshs.6,000,000.00 to be sourced through open tender. The regulations require payment to be made only for delivered goods and services which meets specifications as to quantity and quality ordered for.

A construction firm was paid an amount of Kshs.19,477,906.00.00 as part payment for the construction of the “final phase” of a slaughter house at Ukwanda in Luanda sub-County. The total agreed amount was Kshs.29,050,253.00 and contract duration of 10 months up to February 2015.

A summary of the bills of quantities indicated that the final phase included among others putting up a canteen, two manure sheds, three lagoons, a parking and fencing works. However, even though the construction firm had been earlier hired by the ministry of livestock to carry out the first phase of the works, it was not clear how it was hired to carry out this second phase because the minutes of the relevant tender committees were not availed for audit despite the amount involved calling for open tender.

A visit to the construction site in mid-August, 2014 indicated that most of the work paid for in the final phase like fencing works, construction of a parking bay and three lagoons was still on- going. Although the Engineer responsible for work supervision confirmed that the value of work done in the second phase was Kshs.19,477,906 the contractor was paid in advance to carry out the work since work already paid for was still being done. Such action is in contravention of Government Financial Regulations which require that payment be made based on work already done and certified.

## Recommendations

- Management should confirm that work will be completed within the time frame provided and without risk of cost overruns.
- Threshold matrix on procurement must be adhered to.
- Payments should only be effected for certified works that meet specifications as to quality and quantity.

### 2.13 Irregular Procurement of Fertilizer

The County Government incurred expenditure on the supply and delivery of fertilizer at subsidized prices as detailed below;

Payee	Description	Qty Received	Amount (Kshs)
MEA Ltd	CAN	3333bags@ 2,400/=	7,999,200.00
NCPB	CAN	260 Bags @ 1500	390,000.00
NCPB	NPK	200 Bags @ 2000/=	400,000.00
Zoa Contractors	Transport cost of 4,333 bags of fertilizer		1,596,000.00
	<b>Total</b>	<b>3793</b>	<b>10,385,200</b>

Records examined indicate that,

- a) Payment vouchers in respect of only 3,793 bags of fertilizer were availed for audit even though a transporter was paid a total of Kshs.1,596,000.00 for the distribution of 4,333 bags to various destinations .The details of these destinations were not provided for audit review.
- b) Had the fertilizer been procured from the National Cereals and Produce Board at the then prevailing price of 2000/= per bag, the County would have saved Kshs.1,333,200 (3333 x 400/=)
- c) Tender documents including copies of advertisements, quotations, minutes of procurement committees among others were not made available for audit to confirm if procurement was sourced competitively.

- d) The lists of beneficiaries were not made available for audit verification. Neither were any records in form of ledgers opened to facilitate recovery and the management of the intended revolving fund.
- e) Even though the fertilizer was to be sold to farmers at subsidized prices, it was not clear whether any amounts had been received from the farmers and the chargeable prices were not specified. No information on the regulations and procedures (policy framework) set up by management for the fund were made available for audit review.

### Recommendations

- The fertilizer should be accounted for through signed acknowledgements from beneficiaries. Cost of any fertilizer unaccounted for should be recovered.
- Public procurement regulations should be adhered to in all future procurements.
- Recover all amounts paid without value for money for sourcing fertilizer from other sources instead of National Cereals and Produce Board.

### 2.14 Procurement of Condemned Foodstuff

The County Government without inviting competitive bids, incurred expenditure amounting to Kshs.11,728,000.00 on procurement of foodstuff purportedly for distribution to schools under a school feeding program. The details of the feeding program were not clear since it appears the Ministry of Education was not involved and the relevant County legislation had not been passed.

The Breakdown is as follows:

Date	LPO NO.	Details	Quantity(No)	Rate(Kshs.)	Amount (Kshs.)
2.12.13	2080026	Dry maize	2000 bags	3800	7,600,000
	2080029	Dry beans	260 bags	8,000	2,080,000
	2080016	Dry beans	256 bags	8,000	2,048,000
					<b>11,728,000</b>

The whole consignment of foodstuff was condemned by the department of Public Health as un-fit for human consumption and recommended for destruction before it could be distributed to schools. The expenditure amounted to a loss. The audit also revealed that the expenditure had not been budgeted for.

### Recommendations

- a) Management should recover Kshs.11,728,000.00 from responsible negligent officers in the whole process of acquisition of the foodstuff.
- b) Management should ensure that all expenditure are budgeted for.
- c) Public procurement regulations should be adhered to in all future procurements.

### **3.0 Irregular Procurement of Air Travel**

No documents were made available to confirm how a travel agent to whom a total amount of Kshs.14,000,000.00 was paid in respect of air tickets was identified. The air travel concerned both members of the executive and employees of the County Government. However, specific reasons for travel were in a number of cases not indicated and the amount spent appears excessive. Further, no documented policy as to which officer was entitled to air travel was in place.

#### **Recommendations**

- A documented policy should be put in place specifying the circumstances for use of air travel.
- Procurement procedures and regulations should be adhered to in all procurements.
- Management should follow up and recover from officers who misused the air travel facility.

### **4.0 Expenditure on Miss Tourism Kenya 2015**

Controls over public expenditure require appropriate initiation, authorization and approval. Proper specifications with complete information is also a prerequisite for public expenditure.

A commitment fee of Kshs.10,000,000 was paid to Ms Miss Tourism Kenya Limited (MTK) on 9 Mach, 2014 to host Miss Tourism Kenya 2015 in the County of Vihiga. The concept paper was prepared by the Ministry of Industrialization, Trade and Tourism.

The basic principles of this event is that Miss Tourism Kenya (MTK) and County Government of Vihiga shall not later than March 2015 form a technical working committee that will be responsible for organizing the event. The committee shall be formed by the representatives from MTK and the County Government.

The initial cost for hosting and staging the event was pegged at Kshs.70,000,000. However, the Ministry revised the figure to about Kshs.26,000,000. The audit revealed the following unsatisfactory matters regarding this expenditure;

- The budgetary provisions in the Ministry of Industrialization, Trade and Tourism did not have any allocation for such expenditure. It was therefore charged on the executive vote. For the FY 2014/2015, the Ministry provided for the same but the County Government failed to approve the allocation. This implies the County Government did not approve such expenditure.
- No evidence that this subject was discussed and approved by the cabinet since such heavy expenditure needs input from the cabinet.
- Cost Benefit Analysis prepared by the Ministry indicates that 1500 people are expected and each of these participants will spend an average of Kshs.2000.00. A

total of Kshs.3,000,000.00 may be realized. However, the County has no capacity (accommodation-wise) to accommodate such a huge number.

- The burden of success of the event lies with the committee and not MTK. The agreement appears not to hold MTK responsible for any failures which may be realized in the event. The agreement also fails to mention Kshs.10,000,000.00 commitment fee paid in case the event fails to materialize.

### **Recommendations**

- Ministries should ensure that expenditure is incurred only within budget and that budget making process is participatory to ensure that budgets are realistic.
- Management should follow up on the expenditure to ensure that the amount of Kshs.10,000,000.00 so far spent is recoverable.
- The proposed event's economic viability should be reassessed with a view to taking corrective action.

### **5.0 Unrecovered Salary Advances**

Salary advances are meant to assist an officer go through temporary financial difficulties and are not meant to be long term loan. It should be recovered within six months.

Audit revealed that the balances of salary advance as per the payroll records were different from the balances as per the salary advances register. The register had a balance of Kshs.5,879,463.00 while the payroll had a balance of only Kshs.1,717,995.00 as of 25 May, 2014 meaning that the figure in the payroll was understated. Further, the amount as per the salaries register included more than Kshs.4,084,000.00 held by officers among them chief officers and executive committee members which was not being recovered. This included an amount of Kshs.1,865,692.00 held by one member of the executive. No explanation was given for this unsatisfactory state of affairs.

### **Recommendations**

- Recovery in full should be effected from the salaries of the concerned officers immediately.
- Appropriate action should be taken against those officers responsible for none recovery.
- The County Government should adhere to the human resources policies, procedures and regulations regarding salary advances.

### **6.0 Compromised Controls over Cash and Bank Balances**

Internal controls over cash and bank balances require completeness and accuracy in cashbook maintenance; periodic and preferable daily balancing of the cash book; preparation of monthly bank reconciliation statement; documented cash limits policy

and suppliers to be paid by way of cheques or electronic transfers and not through cash.

During the year, the County Government operated the following six bank accounts; Central Bank Recurrent; Central Bank Development; Central Bank – Revenue; Kenya Commercial Bank -Standing Imprest Account; Kenya Commercial Bank -Collection Account; Co-operative Bank Development account-Development.

However, examination of the relevant cash books and bank statements revealed the following unsatisfactory matters;

- The cash books were never periodically balanced and checked by a responsible officer.
- Monthly bank reconciliations were never carried out.
- The accuracy of the cash books was in doubt as they were not posted with payment voucher numbers and in some cases it appeared the postings were merely copied from the IFMIS ledger. Bank statements for the Central bank recurrent account which was the main payments account for the period between 25 March 2014 and 30 June 2014 were also not made available for audit.
- There was no documented cash limits policy in place a phenomenon which led to excessive cash transactions as even hotels were being paid more than a million in cash for reasons not explained.
- Cash withdrawals from the Kenya commercial bank during the two months of April 2014 and May 2014 exceeded Kshs.33,000,000.00 and Kshs.39,500,000 respectively which was excessive.
- Cash withdrawals from the Kenya commercial Bank account amounting to Kshs.4,950,000,00 were not accounted for as they had not been entered in the cashbooks as detailed below;

<b>Date</b>	<b>Cheque No.</b>	<b>Amount(Kshs)</b>
14/08/013	328	500,000.00
12/08/013	322	950,000.00
12/10/013	466	1,000,000.00
10/10/013	493	3,500,000.00
„	„	(1,000,000.00)
<b>Total</b>		<b>4,950,000.00</b>

- Other cheque payments from the same account to third parties amounting to Kshs.14,147,458.00 were likewise not posted to the cashbooks as detailed below;



<b>Date</b>	<b>Cheque No.</b>	<b>Amount(Kshs.)</b>
21/3/2014	671	7,125,000.00
.. ..	673	3,298,104.70
22/3/014	665	3,724,354.00
<b>Total</b>		<b>14,147,458.00</b>

This demonstrated generally how poorly the books were kept.

As a result, it was not possible to confirm the correct cash and bank balances for the County Government. It was also not possible to confirm what the payments through the exchequer account between the period March 2014 to June 2014 were and whether all bank transactions were authentic.

### **Recommendations**

- Management should put in place cash management policy defining limits for cash transactions (cash withdrawals).
- Periodic bank reconciliations should be effected immediately and be supervised by a responsible officer.
- Management should ensure that all payments are effected either through electronic money transfer or through cheques.
- All cashbooks be accurately and promptly posted, balanced and checked by a responsible officer on a daily basis.
- Material payments in cash to hotels and other entities should be followed up to confirm the values received with a view to recovery

### **7.0 Outstanding Imprest**

As at 30 June, 2013 various officers held a total of Kshs.32,723,433.00 as outstanding imprest. Regulations governing issue of imprests were not adhered to since they were not surrendered within the stipulated period of 48 hours and officers were holding more than one imprest un-surrendered. It was also not clear why the figure appeared unusually too high and why no efforts appear to have been taken to recover the overdue imprest from the officers' salaries.

### **Recommendations**

- Management should ensure that amounts outstanding and overdue are recovered from the officers' salaries.
- Responsible officers should ensure no additional imprest is issued before surrendering previous imprest(s).

## **8.0 Under-Collection of Revenue**

The revenue ledger indicated that the amount collected from the hire of a tractor declined from Kshs.3,901,650.00 collected in the year 2012/2013 to only Kshs.362,000.00 in the year 2013/2014. No proper explanation was given for this drastic decline. Further, even though the County Government had budgeted to collect in total revenue amounting to Kshs.197,000,000.00, records availed to us indicate that only revenue amounting to Kshs.113,709,508.00 appear to have been collected implying there was unexplained under-collection amounting to Kshs.83,290,492.00.

### **Recommendations**

- Investigate the reasons for decline of total revenue collection.
- Investigate the decline of revenue collection by Kshs.83,290,492.00 with a view to recover any lost revenue.
- Internal controls on local revenue management should be strengthened to avoid pilferages
- Officers in charge of revenue collection should provide explanation for fluctuations in revenue.
- All revenue collections should be banked intact.

## **9.0 Information Technology (IT) Environment**

The County Government has adopted use of Information Technology in most of its transactions (financial and non-financial). The IT Department is in place and several programs have been implemented including Integrated Financial Management Information System (IFMIS) which was recommended by the National Treasury.

During the audit, the general IT infrastructure was interrogated and noted the following weaknesses:

- (a) Not all modules have been implemented in the IFMIS. For example, Revenue module is not fully integrated into the system hence use of LAIFOMS and manual methods to supplement IFMIS. As a result, the County revenue collection and recording remains partially computerized and therefore accountability is not guaranteed.
- (b) No steering committee is in place and therefore no clear IT policies are enforced resulting into weak IT control environment.
- (c) There is no documentary evidence that changes made into the system are properly tested, and documented; hence unauthorized changes can be made into the system. As a result, the accuracy of the system output is not guaranteed.

(d) The entity has no disaster recovery plan and no disaster emergency procedures in place. In case of occurrence of any disaster, there is risk of loss of vital information and hardware.

(e) No fire extinguishers and suppression systems in place. The organization might not recover from an interruption at all or quickly enough.

In the absence of reliable Information Management System, accountability may be compromised and safety of both hardware and software is not guaranteed.

### **Recommendations**

- The County Government should take steps to address areas of weakness identified.
- Implement all the IFMIS financial modules to enhance accuracy and completeness of information.

### **10.0 Internal Control Environment**

The County Government of Vihiga has not put in place proper internal controls as identified below;

- a) Organizational structure of the auditee is not clearly defined by means of an approved and updated organization chart.
- b) Responsibilities of different levels of management and their roles in decision-making is not documented and communicated to all staff.
- c) Management has not promulgated a code of conduct for employees in the organization.
- d) The auditee has no documented and approved risk management policy. No clearly documented and specific controls identified in response to the risks.
- e) Processes are not in place to ensure that significant changes in legislation are reflected in the updated policies and procedures.

Lack of properly documented organizational structure and segregation of duties may lead to; Possibility of duplication of duties; Distortion of chain of command and communication; and Officers being assigned duties for which they are not qualified for.

### **Recommendations**

- Ensure that proper organizational structure is put in place.
- Develop and implement a code of conduct for staff.
- Develop and implement a risk management policy.

## **11.0 Failure to Constitute Audit Committee**

Although Treasury Circular No. 16/2005 dated 4 October, 2005 States that a Government Institution should not operate without an Internal Audit Committee as at the time of this audit in February 2015, Vihiga County Government had no such committee in place.

Review of the adequacy of internal controls put in place by the management and the entity's compliance with all relevant legislations and statutory requirements is not enforced in the absence of an audit committee.

### **Recommendation**

- The County Government should establish an Audit Committee in compliance with the Public Finance Management Act, 2012.

### **Conclusion**

The foregoing matters clearly indicate that the County Government Executive faced several challenges in the first year of operation. The handing and taking over of assets and liabilities has not been finalized. The setting of structures, systems of governance and staffing took long and was slow.

The County Government should however ensure full control of functions, enhanced revenue collection, competitive staffing and strengthen the Internal control mechanism for proper and effective accountability of resources to the residents and in compliance with the Constitution.



**Edward R.O. Ouko, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**25 May 2015**