

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of County Assembly of Busia set out on pages 1 to 47, which comprise of the statement of assets and liabilities as at 30 June, 2019, statement of receipts and payments, statement of cash flows, statement of comparative budget and actual amounts: recurrent and development combined and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects the financial position of the County Assembly of Busia as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012 and County Governments Act, 2012.

Basis for Qualified Opinion

1.0 Unsupported Cash and Cash Equivalents

The statement of financial assets and liabilities reflects cash and cash equivalents balance of Kshs.22,813,770. However, Management did not support the figure with cashbook, certificates of bank balance and bank reconciliation statements.

Consequently, the accuracy and completeness of the cash and cash equivalents balance of Kshs.22,813,770 could not be confirmed.

2.0 Inaccuracy of Accounts Receivables

The statement of financial assets and liabilities reflects accounts receivables amount of Kshs.29,053,263 as disclosed in Note 10 to the financial statements. Included in the amount is a salary advance amount of Kshs.13,670,963 which differs with the salary advance schedule of Kshs.12,595,789 resulting to unreconciled variance of Kshs.1,075,174.

Consequently, the accuracy and completeness of the accounts receivables amount of Kshs.29,053,263 could not be confirmed.

3.0 Unsupported Accounts Payables - Deposits and Retention

The statement of assets and liabilities reflects accounts payable – deposits and retention balance of Kshs.16,160,651 as disclosed under Note 11 to the financial statements. However, Management did not avail supporting schedules for audit review.

Consequently, the accuracy, completeness and validity of the accounts payable – deposits and retention balance of Kshs.16,160,651 reflected in the statement of assets and liabilities could not be confirmed.

4.0 Unsupported Compensation of Employees

The statement of receipts and payments reflects compensation of employees amount of Kshs.372,276,888 as disclosed under Note 3 to the financial statements includes personal allowances paid as part of salary of Kshs.39,685,813. The supporting schedules provided indicate sitting allowances amount of Kshs.124,688,259 resulting to an unreconciled difference of Kshs.85,002,446.

Consequently, the accuracy, completeness and validity of the compensation of employees amount of Kshs.372,276,888 reflected in the statement of assets and liabilities could not be confirmed.

5.0 Unsupported Use of Goods and Services

The statement of receipts and payments reflects use of goods and services amount of Kshs.321,900,305 as disclosed under Note 4 to the financial statements. The balance includes domestic travel and subsistence payments amounting to Kshs.2,209,010 which were not supported by documents such as; imprest warrants, attendance schedules, bus/work tickets, invitation letters, advertisement notices, list of officers who benefited, appointment of members of evaluation committees as well as minutes of the committee's meetings, contract agreement, notification of award, professional opinions and reports.

Consequently, the accuracy, completeness and validity of the domestic travel and subsistence payments amounting to Kshs.2,209,010 reflected in the statement of assets and liabilities could not be confirmed.

6.0 Unsupported Social Security Benefits

The statement of receipts and payments reflects social security benefits of Kshs.22,165,792 as disclosed under Note 6 to the financial statements. However, Management did not avail, for audit review, payment vouchers other supporting documents in support of expenditure.

Consequently, the accuracy, completeness and validity of the social security benefits of Kshs.22,165,792 reflected in the statement of assets and liabilities could not be confirmed.

7.0 Unsupported Procurement

Management procured iPads, laptops, desktops and training for Members of County Assembly (MCAs) from a local company at a contract sum of Kshs.9,665,600. However, procurement documents and stores records were not provided for audit review.

Consequently, the accuracy, completeness and validity of the procurement of iPads, laptops, desktops and training for Members of County Assembly (MCAs) amounting to Kshs.9,665,600 could not be confirmed.

8.0 Unsupported Insurance Costs

The statement of receipts and payments reflects use of goods and services amount of Kshs.321,900,305 and as disclosed under Note 4 to the financial statements. This amount includes insurance costs of Kshs.29,876,200. Included in the insurance costs expenditure are payments of Kshs.1,729,700 which did not relate to insurance costs.

Consequently, the accuracy, completeness and validity of the insurance costs of Kshs.29,876,200 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the County Assembly of Busia Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

Other Matter

1.0 Pending Payables

The County Executive had pending accounts payables totalling Kshs.155,214,841 as disclosed under Note 5.10(1, 2 and 3), which have been carried forward to 2019/2020 financial year.

Failure to settle accounts payables in the year to which they relate adversely affects the following year's budget provision to which they have to be charged.

2.0 Prior Year Matters

In the audit report of the previous year, several matters were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. Although the Management has indicated that the issues have been

responded to, the matters have remained unresolved as the Senate has not deliberated on the same

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1.0 Long Outstanding Imprests

The imprests balance of Kshs.15,382,300 as disclosed under Note 10 to the financial statements includes outstanding imprest amount of Kshs.15,203,300, held by staff for more than six (6) months after the due dates had lapsed. This was contrary to the provisions of Regulation 93 (5) of the Public Finance Management (County Governments) Regulations, 2015 which provides for accounting and surrender of imprest within seven (7) working days after returning to the duty station. Further, Management has not explained measures it has taken to recover the amounts as required by Regulation 93(6) of the Public Finance Management (County Governments) Regulations, 2015 which provides for the Accounting Officer to take immediate action to recover the full amount from the salary of the defaulting officer with an interest at the prevailing Central Bank rate.

Consequently, Management was in breach of regulations.

2.0 Non-Conformity to Third Basic Pay Rule

Review of the payrolls revealed that net salary of sixty-one (61) employees fell below 1/3 of the basic salary. This was against provisions of Section 19 (3) of the Employment Act, 2007 which requires that deductions made by an employer from the wages of an employee at any one time shall not exceed two thirds of such wages.

Consequently, Management was in breach of the law.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1.0 Weak Controls in Management of Salary Advances

The County Assembly's records indicate that outstanding salary advances as at 30 June, 2019 amounted to Kshs.13,670,963. However, it was noted that part of this amount was owned by the MCAs and staff members who were issued with salary advances in excess of their respective two months' basic salaries. In addition, the salary advance ledger was not updated and the initial amounts issued could not be ascertained.

As a result, effectiveness of controls over salary advances including overall governance could not be confirmed.

2.0 Payment of Salaries Through Manual Payroll

Included in the compensation of employees expenditure of Kshs.386,109,748 are salaries amounting to Kshs.14,422,415, which were paid through the manual payroll instead of the Integrated Payroll and Personnel Database (IPPD).

In the circumstances, effectiveness of adequate controls over manual could not be confirmed.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and those Charged with Governance

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

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

unless Management is aware of intention to dissolve the County Assembly or to cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the County Assembly's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not

reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the County Assembly's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the County Assembly to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the County Assembly to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

14 April, 2021