

# **REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF BUSIA FOR THE YEAR ENDED 30 JUNE 2017**

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## 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 45, which comprise the statement of financial assets and liabilities as at 30 June 2017, and the statement of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts: recurrent and development combined 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 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, the financial statements present fairly, in all material respects, the financial position of County Assembly of Busia as at 30 June 2017 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, I confirm that nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

### **Basis for Qualified Opinion**

#### **1. Inaccuracies of the Financial Statements**

##### **1.1. Cash and Cash Equivalents**

The statement of cash flows reflects changes in accounts receivable and accounts payables of Kshs.3,668,523 of Kshs.753,607 respectively which differ with the actual changes of the receivables and payables reported in the statement of financial assets and liabilities of Kshs.33,148,396 and Kshs.1,853,204 respectively.

Further, included in the cash and cash equivalents balance of Kshs.79,478,962 is Kshs.79,477,707 being bank balance as at 30 June 2017 which were not supported with necessary bank reconciliation statements and certificate of balance from the bank and hence it has not been possible to confirm that cash and cash equivalents balance of Kshs.79,478,962 as at 30 June 2017 is fairly stated.

##### **1.2. Unreconciled IFMIS Ledger and Financial Statements Balances**

The figures reported in the financial statements do not agree with the figures in the IFMIS ledger balances as analyzed below;

<b>Details</b>	<b>Amount as per Financial Statements Kshs.</b>	<b>Amount as per IFMIS Ledger Kshs.</b>	<b>Unreconciled Variance Kshs.</b>
Payments	723,681,096	651,594,844	72,086,252

### **1.3. Unsupported Compensation of Employee Balances**

The statement of receipts and payments for the year ended 30 June 2017 reflects compensation of employees balance of Kshs.410,000,000 which varies from the provided final ledger balances of Kshs.375,358,168 thus resulting to an unexplained difference of Kshs.34,641,832.

In the circumstances, it was not possible to ascertain completeness and accuracy of the balances in the financial statements as at 30 June 2017.

### **2. Outstanding Imprests**

The statement of financial assets as at 30 June 2017 reflects outstanding imprests totalling Kshs.2,332,483, which were overdue as at 30 June 2017. In addition, the outstanding imprests include Kshs.1,683,960 being multiple imprests issued to various employees of the County Assembly contrary to Section 93(4) of the Public Financial Management Regulations, 2015 which requires officers to surrender or account for previous imprests before they are issued with new imprests and Section 93(5) which states that imprests should be accounted for within seven (7) days after performance of duties for which they were issued.

Consequently, the recoverability and regularity of the imprest balance of Kshs.2,332,483 in the statement of financial assets as at 30 June 2017 could not be confirmed.

### **3. Pending Bills**

Note 18.1 and 18.3 to the financial statements reflects pending accounts payable and pending staff payables totaling to Kshs.79,009,343 and Kshs.4,356,211 respectively. However, no explanations were given as to how the pending bills were incurred and why they exceeded the budget for the year, given that the surplus for the year was only Kshs.42,186,842 with the bills pending totalling Kshs.83,365,554.

Consequently, the recoverability of the pending accounts payable balance of Kshs.83,365,554 as at 30 June 2017 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of County Assembly of Busia in accordance with ISSAI 30 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, in my profession judgements, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, I have determined that there are no Key Audit Matters to communicate in my report.

## Other Matter

### 1. Budget Control and Performance

#### 1.1. Budgetary Performance

The total recurrent budget of the County Assembly of Busia for the year under review was Kshs.633,726,061 while actual expenditure was Kshs.685,825,941 thus resulting to an over expenditure of Kshs.52,099,880 or 7%. Further, the total development budget was Kshs.108,003,270 while actual expenditure was Kshs.37,855,155 (35% of the budget) resulting to an under-expenditure of Kshs.70,148,115.

#### 1.2. Revenue Performance

The Assembly's budgeted revenue for the year was Kshs.734,567,966 but actual receipts totalled Kshs.765,867,938 thus resulting in excess revenue of Kshs.31,299,972 or 4% of the budget which was from the County Treasury.

Consequently, the County Assembly of Busia has not operated within the budgetary provisions to deliver services planned for and expected by the residents of the County.

### 2. Project Implementation and Management

During the year under review the County Assembly budgeted to implement a total of 7 projects/programmes costing Kshs.95,590,180 under the development vote. However, at the time of the audit, three (3) projects had not started and four (4) projects were still on going as tabulated below;

Development Programme	Budgeted Amount	Amount Spent	Implementation Status	
			Not Started Kshs.	Ongoing Kshs.
Refurbishment of County Assembly Buildings	12,000,000	4,223,091		4,223,091
ICT Infrastructure	2,000,000	197,952		197,952
CCTV Installation	1,000,000	-	1,000,000	

Installation of Electricity Fence - Perimeter Wall	1,000,000	-	1,000,000	
New Office Block	74,590,180	29,154,380		29,154,380
Purchase of Office Furniture	2,000,000	-	2,000,000	
Construction of Modern Car Park	3,000,000	2,882,960		2,882,960
<b>Total</b>	<b>95,590,180</b>	<b>36,458,382</b>	<b>4,000,000</b>	<b>36,458,382</b>

### 3. Compensation of Employees

#### 3.1. Unresolved Staff Rationalization Matters

The assembly initiated staff rationalization programme in the year 2015/16 to address management of the extra employees' costs. Available records indicates an annual budgetary support by the County Executive of Kshs.42,000,000. However, the Assembly has not provided a detailed budget forecast and implementation plan for the conclusion of the exercise.

#### 3.2. Over Employment

During the year under review, the Assembly incurred Kshs.410,000,000 on compensation of employees being 54% of the total receipts of Kshs.765,867,938, contrary to Section 25(b) of the Public Finance Management County Governments Regulations, 2015 which puts a cap at 35% of the total receipts. The Assembly was, therefore, in breach of the law.

### 4. Weakness in Internal Control

The management of the Assembly constituted an audit committee during the year under in line with Section 167(1) of the Public Finance Management Regulations (County Government), 2015. However, the committee had not begun discharging its functions and responsibilities as outlined in Section 168 and 172(1) of the regulations thus compromising its effectiveness.

### Responsibilities of Management and Those Charged with the Governance for the Financial Statements

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 such 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.

In preparing the financial statements, management is responsible for assessing the Assembly's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to cease operations or have realistic alternative but to do so.

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.

Those charged with governance are responsible for overseeing the Assembly's financial reporting process.

### **Auditor-General's Responsibilities for the Audit of the Financial Statements**

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 of Kenya. 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 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.

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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Assembly's 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 going concern 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 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 of the entities or business activities 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.



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

**Nairobi**

**16 July 2018**