

# REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF BUSIA FOR THE YEAR ENDED 30 JUNE 2018

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## REPORT ON THE FINANCIAL STATEMENTS

### Qualified Audit Opinion

I have audited the accompanying financial statements of the County Assembly of Busia set out on pages 1 to 30, which comprise the statement of assets and liabilities as at 30 June 2018, and the statement of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts 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 paragraph, the financial statements present fairly, in all material respects, the financial position of the County Assembly of Busia as at 30 June 2018 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 the Public Finance Management Act, 2012.

### Basis for Qualified Opinion

#### 1. Un-vouched Expenditure

Included in the use of goods and services figure of Kshs.242,467,121 is an amount of Kshs.75,851,952 in respect of other operating expenses which in turn includes Kshs.2,375,000 paid to a local practicing law firm as legal fee for services rendered. However, the payment vouchers and support documents in respect of services rendered were not availed for audit verification.

In the circumstances, it was not possible to ascertain probity of the expenditure of Kshs.242,647,121 incurred during the year.

#### 2. Accounts Payables-Deposits and Retention

The accounts payable- deposits and retentions balance of Kshs.20,545,116 reflected under note 11 to the financial statement is supported with the schedule listing individual accounts balances as at 30 June 2018 but no tangible documents were availed for audit review.

In addition, it was noted that during the year under review, the Assembly paid out retention money totaling Kshs.2,091,296 out of the development account instead of making the payment from the retention account. No refund has been made from the retention account to the development account, as at the time of audit.

In the circumstances, it was not possible to confirm the accuracy and completeness of the balances of accounts payable reflected in the statement of financial assets and liabilities as at 30 June 2018.

### 3. Accounts Receivables – Outstanding Imprests

The accounts receivables – outstanding imprests balance Kshs.23,730,533 relates to amounts that had not been recovered from the county officers during the year under review with Kshs.17,510,533 being long outstanding balances for diverse period, ranging up to eight (8) months from the imprest accounting due dates. This is contrary to Section 93 of the Public Finance Management Act, Regulations – 2015 which requires imprest to be surrendered within seven (7) working days after returning to duty station.

Further, the imprest register though maintained had not been updated, hence incomplete as at the time of audit.

In the circumstances, the management, accuracy and validity of the outstanding imprests balance of Kshs.23,730,533 as at 30 June 2018 could not be ascertained.

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 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. 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 report.

### Other Matter

#### 1. Overall Budgeted Performance

During the year under review, the Assembly budgeted for Kshs.1,089,534,307 consisting of recurrent allocation of Kshs.906,631,094 (83%) and development allocation of Kshs.182,903,213 (17%). The actual expenditure amounted to Kshs.882,980,111 consisting of Kshs.814,438,777 (97%) and Kshs.111,426,080 (61%) on recurrent and development expenditure respectively, resulting into an overall budget absorption of 91%, being 97% on recurrent expenditure and 61% on development expenditure as highlighted below.

<b>Vote</b>	<b>Budget Allocation 2017/2018 Kshs</b>	<b>Actual Expenditure 2017/2018 Kshs.</b>	<b>Budgeted per Vote%</b>	<b>Absorption Rate %</b>

Recurrent Expenditure	906,631,094	882,980,111	83%	97%
Development Expenditure	182,903,213	111,426,080	17%	61%
<b>Total</b>	<b>1,089,534,307</b>	<b>994,406,191</b>	<b>100%</b>	<b>91%</b>

## 2. Detailed Budget Variance Analysis

The County Assembly did not prepare a detailed budget variance analysis and availed for audit verification during the year.

In view of the above, the Assembly may not have achieved its targets as approved by the Assembly hence service delivery may not be realized by the residents of the County.

## 3. Unformulated County Assembly Policies

The following policies and guidelines had not been developed while others were in the process of being developed and approved for adoption.

- a) Finance Procedural manual (draft form)
- b) Internship policy and guidelines
- c) Engagement of casual and temporary/contract staff
- d) Service charter
- e) Communications policy
- f) Overtime policy
- g) Records management policy

Consequently, the Assembly's ability to manage its resources and operations without clear guidelines may be weak.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC MONEY

### Conclusion

Further, as required by Article 229(6) of the Constitution, based on the procedures performed, except for the matter described in the report on lawfulness and effectiveness in use of public money section 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.

### Non-conformity to a Third Basic Rule Policy

From a sampled test on payroll, some of the employees and MCA's earned net salary less than one third (1/3) of their basic pay, in contravention to the Employment Act and Regulations.

Consequently, the Assembly was in breach of the Employment Act and Regulations

### **Basis for Conclusion**

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 procedures performed, except for the matters described in the report on effectiveness of internal controls, risk management and governance section of my report, I confirm that, nothing has coming come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

### **Basis for Conclusion**

#### **1. Management of Salary Advances**

The Assembly paid salary advances amounting to Kshs.22,041,406 during year under review. From a sample of salary advances, the following anomalies were observed:

- a) Salary advances were issued in consecutive months hence staff members would hold two salary advances at the same time.
- b) In some cases, the payment vouchers were not signed as evidence of being authorized by the accounting officer.
- c) Some advances were more than the two months' basis salary exceeding the maximum ceiling set by the Assembly's policies.
- d) The statement of financial assets and liabilities as at 30 June 2018 disclosed an outstanding salary advance totaling to Kshs.6,220,449 all of which were long overdue.

In the circumstances, weak management of salary advances my lead to loss of public funds.

## **2. Inter Borrowing from the Assembly's Revolving Fund**

The Assembly borrowed funds from the revolving fund amounting to Kshs.8,100,000 in 2017/2018 and Kshs.45,320,452 in previous years which has not been refunded hence deriving the fund by a total of Kshs.53,420,452. Further, the management did not provide for audit review records on loan agreements and approval minutes for the borrowings.

In the circumstances, huge borrowings not refunded immediately will negatively impact on subsequent year's budget formulation and implementation.

## **3. Incomplete Fixed Assets Register**

A review of the fixed assets register revealed the following anomalies:

- a) The manual register book was not properly stored as it had started being worn out.
- b) The assets purchased were not frequently updated and tagged.
- c) The movement of assets from one department to another were not documented, hence the spot on accuracy of the fixed assets could not be determined.
- d) Physical location and the officer responsible of the register could not be ascertained.
- e) The depreciation and net value of the assets had not been factored in determining the valuation of these assets.

Consequently, in the absence of a complete and verified register, we were unable to confirm the completeness and accuracy of assets belonging to the Assembly.

## **4. Pending Accounts Payables**

Included in Note 13.1 and 13.2 to the financial statements are the pending accounts payables and pending staff payables totaling Kshs.39,779,300 and Kshs.13,344,269 respectively. These pending bills have resulted to overrun of expenditures in the budget for the year under review. Further, the cash and cash equivalents for the year was only Kshs.27,300,834 more than the pending accounts payable.

In the circumstances, huge pending bills might impact negatively on subsequent year's budget formulation and implementation thus delaying the achievement of the County's objectives.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. 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 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 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 County Assembly's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the management either intends to liquidate the Assembly or to close operations or have no 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.

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 money is applied in an effective manner.

Those charged with governance are responsible for overseeing the entity's financial reporting process, reviewing the effectiveness of how the entity 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 governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

### **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.

In addition to the audit of the financial statements, a compliance review is planned and performed to express a conclusion with limited assurance as to 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 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and 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 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 Assembly's ability to continue offering 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 offering 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 of the 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.



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

**Nairobi**

**18 January 2019**