

# **REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF BUNGOMA FOR THE YEAR ENDED 30 JUNE, 2020**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of County Assembly of Bungoma set out on pages 1 to 60, which comprise the statement of financial assets and liabilities as at 30 June, 2020, 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 of my report, the financial statements present fairly, in all material respects, the financial position of the County Assembly of Bungoma as at 30 June, 2020, 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 and the County Government Act, 2012.

### **Basis for Qualified Opinion**

#### **Unsupported Fixed Asset Balances**

The summary of fixed asset register at Annexure 3 to the financial statements reflects assets totalling Kshs.700,100,538 as at 30 June, 2020. However, the County Assembly did not maintain an updated assets register to show the nature, physical location and fair value of the Assembly's assets, contrary to Regulation 136(1) of the Public Financial Management (County Governments) Regulations, 2015, which states that the Accounting Officer shall be responsible for maintaining a register of assets under his or her control or possession as prescribed by the relevant laws.

In the circumstances, the accuracy and completeness of the total assets balance of Kshs.700,100,538 as at 30 June, 2020 could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the County Assembly of Bungoma 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 judgment, are of most significance in the audit of the financial statements. There are no key audit matters to report in the year under review.

## **Other Matter**

### **1. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts for recurrent and development combined for the year under review reflects an approved receipt budget of Kshs.1,072,587,080 and actual receipts of Kshs.1,022,394,769 resulting in a budget shortfall of Kshs.50,192,311 or 5%. Similarly, the statement reflects an expenditure budget of Kshs.1,072,587,080 compared to an actual expenditure of Kshs.1,009,138,641 resulting in a net under-expenditure of Kshs.63,448,439 or 6%. The underfunding and underperformance constrained execution of planned activities and delivery of services to the residents of Bungoma County.

### **2. Pending Accounts Payables**

As disclosed in Note 3.10(1) on other important disclosures and Annex 1 to the financial statements, the County Assembly had pending bills of Kshs.58,900,906 due to suppliers of goods and services as at 30 June, 2020. Further, Annex 2 to the financial statements, indicates that the County Assembly had Nil other pending payables due to county government entities as at 30 June, 2020. However, the following anomalies were noted;

#### **2.1 Pending Payables to Bungoma County Assembly Car Loan and Mortgage Scheme Fund**

Records maintained by the Bungoma County Assembly Car Loan and Mortgage Scheme Fund indicates that the County Assembly had borrowed an amount of Kshs.72,289,089 from the Fund during the year under review. This is in addition to a balance brought forward of Kshs.36,722,914 to bring the total amount which the County Assembly owes the Fund to Kshs.109,012,003. The Assembly had refunded a total of Kshs.41,932,158, resulting to an outstanding balance of Kshs.67,079,845 as at 30 June, 2020.

#### **2.2 Pending Payables to Bungoma County Assembly Employee Car Loan and Mortgage Scheme Fund**

Records maintained by the Bungoma County Assembly Employee Car Loan and Mortgage Scheme Fund indicated that the County Assembly borrowed an amount of Kshs.4,966,431 from the Fund during the year under review. This is in addition to balance brought forward of Kshs.17,190,318, bringing the total debt to Kshs.22,156,749. The Assembly had refunded Kshs.9,591,024, leaving a balance of Kshs.12,565,725 as at 30 June, 2020.

The total debt of Kshs.79,645,570 owed to the two Funds had not been disclosed in the financial statements. Consequently, the accuracy of the other pending payables balance of Nil as at 30 June, 2020 could not be confirmed.

# REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

## **Conclusion**

As required by Article 229(6) of the Constitution, based on the 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. Delayed Completion of Office Block**

The statement of receipts and payments reflects an expenditure of Kshs.159,134,172 under acquisition of assets which, as disclosed in Note 8 to the financial statements, includes an amount of Kshs.141,531,863 incurred on construction of buildings. The amount was paid to a local contractor for a contract awarded for construction of the County Assembly's office block at a contract sum of Kshs.447,768,217.

As previously reported, the contract was to be carried out in eighteen (18) months with expected completion date of May, 2018 which was later revised to 178 weeks pushing the completion date to 30 September, 2020. However, as at the time of audit in December 2020, two months after the revised completion date had expired, the project was approximately 89% complete and it was not known when the same would be completed and put to use.

Further, documentation for application and approval of a revised completion date in line with the provisions of Section 139(2) of the Public Procurement and Asset Disposal Act, 2015, which requires an Accounting Officer of a procuring entity, on the recommendation of an Evaluation Committee, to approve the request for the extension of contract period accompanied by a certificate from the tenderer was not provided for audit verification.

Consequently, Management was in breach of the law and the residents of Bungoma may not get value for the amount so far paid.

### **2. Irregular Charge of Expenditure**

The statement of receipts and payments reflects an expenditure of Kshs.455,255,383 under use of goods and services which, as disclosed in Note 4 to the financial statements, includes an amount of Kshs.265,022,475 in respect of hospitality supplies and services. The later balance included an amount of Kshs.3,559,700 paid to a local firm in respect of training services but was captured under hospitality supplies and services. This is contrary to Regulation 43(2) of the Public Finance Management (County Governments) Regulations, 2015 that requires a County Government entity to execute their approved budgets based on the annual appropriation legislation, and the approved annual cash flow plan, with the exception of unforeseen and unavoidable spending dealt with through the County Emergency Fund or supplementary estimates.

Consequently, the 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 so as to obtain assurance as to 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 Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance and Basis for Qualified Opinion sections 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

#### Information and Communication Technology Control Environment

Review of governance documents and interviews with the Management revealed the following;

- (i) The Management had not established an ICT Strategic Committee at the Board Level.
- (ii) There was no ICT Strategic Plan and the roles and responsibilities for each ICT function were not defined.
- (iii) There was no tangible plan in place to ensure up-to-date security on all systems software including patch management process and instead only manual methods were used.
- (iv) There was no formal change request documentation completed indicating the change to be made and the reasons for all changes to the financial systems for any system upgrades. No documented and tested emergency procedure has been put in place.
- (v) The Assembly did not have an ICT Continuity and Disaster Recovery Plan.
- (vi) The Assembly had no Back-Up and Retention Strategy.

Consequently, the Assembly's ICT infrastructure and resources were not managed in line with the best practices and may have challenges in restarting in case a disaster occurs.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit so as to obtain assurance as to whether effective processes and systems of internal control, risk management and overall governance was maintained 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 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 and for its assessment of the effectiveness of internal control, risk management and 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 the 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 Assembly'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**

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 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 judgment and maintain professional scepticism 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 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**

**28 October, 2021**