

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of County Executive of Busia set out on pages 1 to 111, which comprise the statement of financial assets and liabilities as at 30 June 2018, and the statement of receipts and payments, statement of changes in equity, 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 effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of County Executive of Busia as at 30 June 2018, 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 Financial Management Act, 2012.

Basis for Qualified Opinion

Fixed Assets and Liabilities from Defunct Local Authorities

The fixed assets balance of Kshs.6,499,780,321 shown under annex 5 to the financial statements excludes assets that were taken over from the defunct local authorities. Further, no hand over report was availed for audit review in support of how the assets and liabilities were taken over by the County Executive.

In the circumstances, the completeness of all the fixed assets held by the County Government could not be ascertained as at 30 June 2018.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the County Executive 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.

Emphasis of Matter

Pending Accounts Payable

Annex 2 to the financial statements reflects pending accounts payable of Kshs.984,406,535 in respect to construction of buildings, construction of civil works, supply of goods and services as summarized in the table below:

Pending Bill	Amount (Kshs)	Remarks
Steelant Engineering Company Ltd	2,452,000	No invoice
Egeli Building and Suppliers Contractors Ltd	3,994,000	Invoice amount is Kshs.1700000
Bonissa Gen Services Ltd	1,233,950	No documents
Powa Ent:	1,050,000	No documents
Total	8,729,950	

However, as at the time of audit, the management did not provide the analysis of the current payment status and outstanding amount with details of the LPO/LSO numbers and dates, invoices, interim certificate numbers as well as inspection and acceptance reports.

Failure to pay bills in the year they relate to distorts the financial statements for the year and adversely affects the provisions for the subsequent years they have to be charged to. Further, included in the pending accounts payable of Kshs.984,406,535 are bills totaling to Kshs.8,729,950 as tabulated below that lacked supporting documents in form of interim certified certificates, invoices, inspection and acceptance reports and /or partly paid vouchers.

In the circumstances, the validity, accuracy and completeness of the pending accounts payable of Kshs.984,406,535 could not be confirmed.

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. Except for the matter described in the Basis for Qualified Opinion section, I have determined that there are no key audit matters to communicate in my report.

Other Matter

1.0 Acquisition of Assets

1.1 Unsupported Expenditure on Construction of Civil Works

The Department of Water, Irrigation, Environment and Natural Resources made payments totaling Kshs.20,218,537 to various contractors in respect of construction of civil works as tabulated below:

	Payee	Description	Cheque No.	Amount Kshs
1	Pumping Units 8 Boreholes Samia Bunyala	Davis and Shirliff Limited	10010314	5,608,282
2	Okhandu Ltd	Liquid Waste Management	10009071	3,673,103
3	Pipe Extension Solar Powered Boreholes Angorom	Vexmed Enterprises Limited	10009287	3,673,103
4	Drilling Dev Kakinei Kamuria	Valley Drillers and General Contractors	10009958	2,749,318
5	Drilling Dev Lunga Catholic Church Matayos	Valley Drillers and General Contractors	10009990	2,725,443
6	Agenda water works pipe Extension	Building Masters Group Limited	10010018	1,789,288

However, review of the payment records revealed that they lacked proper support documents such as tender advertisements, evaluation minutes and notification of award and letter of acceptance.

Consequently, the regularity of the expenditures totaling to Kshs.20,218,537 could not be confirmed.

1.2 Construction of an Accident and Emergency Department (ICU Centers) at the Busia County Referral hospital

The Department of Health and Sanitation contracted a local construction company at a sum of Kshs.52,687,199 for construction of an Accident and Emergency Department (ICU centers) at the Busia County Referral hospital. However, no documentation was availed to confirm whether the works specified in the bills of quantities as tabulated below were performed.

Element	Bills of Quantity Amount
	Kshs
External and Internal walling	4,260,400
Doors	2,400,200
Windors	3,077,800
Finishes	8,129,464
Stairs and railing	50,400
Total	17,918,264

Consequently, the propriety of the expenditure of Kshs.17,918,264 as at 30 June 2018 could not be confirmed.

2.0 Domestic Travel and Accommodation

The Department of Youth, Gender and Social Services paid an amount of Kshs.1,196,550 to a local travel agency. However, the requisition for expenditure, purposes of the travels, and boarding passes indicating the travel dates were not provided for audit verification.

In the circumstances, the propriety of the expenditure of Kshs.1,196,550 as at 30 June 2018 could not be confirmed.

3.0 2013-17 County Integrated Development Plan Implementation (CIDP) Status

Review of the 2013-2017 CIDP implementation review report revealed that the Executive had budgeted for 1,250 flagship projects costing Kshs.7,332,054,741 to be implemented by its eleven (11) sectoral departments. However, by the time of audit, the Executive had completed 770 projects with a budgeted cost of Kshs.2,171,252,238, while 264 projects with a budgeted cost of Kshs.2,171,252,238 were ongoing and 168 projects estimated to cost Kshs.1,960,676,284 were not started/ remained stalled as tabulated below.

2013-2017 CIDP Implementation Review Outlook								
Department Programmes	Budget Projects		Completed Projects		Ongoing Projects		Stalled/Not Started Projects	
	No	Amount in Kshs	No.	Amount in Kshs.	No	Amount in Kshs.	No	Amount in Kshs.
1. Finance and Planning								
Construction of Offices	7	20,000,000					7	20,000,000
Revenue Automation	1	13,790,000			1	13,790,000		
Information and Communication Services	3	5,000,000	3	5,000,000				
Sub-Total	11	38,790,000	3	5,000,000	1	13,790,000	7	20,000,000

2013-2017 CIDP Implementation Review Outlook								
	Budget Projects		Completed Projects		Ongoing Projects		Stalled/Not Started Projects	
Department Programmes	No	Amount in Kshs	No.	Amount in Kshs.	No	Amount in Kshs.	No	Amount in Kshs.
2. Education and Vocational Training								
ICT development	1	100,000,000	-	-	1	2,400,000	-	-
Construction of ECD classrooms	207	214,725,125	142	148,502,794	53	53,504,927	12	12,717,404
Employment of ECD teachers	1	528,000,000	-	-	1	30,291,000	-	-
Vocational training: Refurbishment and construction of infrastructure in vocation training centers	6	13,166,675	1	1,595,359	4	10,438,466	1	1,132,850
Ward projects	120	109,310,859	35	27,875,859	24	30,750,000	61	50,685,000
Sub-Total	335	965,202,659	178	177,974,012	83	127,384,393	74	64,535,254
3. Health and Sanitation								
Curative Health Services	44	519,969,000	9	128,826,000	23	311,657,000	12	17,248,000
Preventive and health promotion services	18	12,999,996	18	12,999,996	-	-	-	-
Sub-Total	62	532,968,996	27	141,825,996	23	311,657,000	12	17,248,000
4. Trade Cooperative and Industrialization								
Trade	12	1,002,000,000	7	10,717,783			5	920,000,000
Tourism	6	168,000,000					6	168,000,000
Industrialization	6	600,000,000					6	600,000,000
Co-operative	2	510,000,000			1	8,791	1	-
Sub-Total	26	2,280,000,000	7	10,717,783	1	9	18	1,688,000,000
5. Agriculture and Natural Resources								
Agriculture and Natural Resources	86	617,546,543	61	351,287,161	21	267,401,142	4	3,604,240
Crop production Management	16	519,298,211	3	300,061,161	13	219,237,050		
Veterinary Services	12	50,868,332	2	4,746,000	8	48,164,092	2	2,704,240
Ward Projects	58	47,380,000	56	46,480,000			2	900,000
Sub-Total	172	1,235,093,086	122	702,574,322	42	534,802,284	8	7,208,480
6. Roads, Public Works, Energy and Transport								
Rural electrification	20	68,784,735			18	33,784,735	2	35,000,000

2013-2017 CIDP Implementation Review Outlook								
	Budget Projects		Completed Projects		Ongoing Projects		Stalled/Not Started Projects	
Department Programmes	No	Amount in Kshs	No.	Amount in Kshs.	No	Amount in Kshs.	No	Amount in Kshs.
Grading and gravelling of roads	29	105,001,660	22	36,132,971	7	68,868,689		
Grading,gravelling,culvert installation	108	297,516,960	108	297,516,960				
Ward development programme:Construction of major drainage	54	59,901,174	52	53,894,515	2	6,006,659		
Sub-Total	211	531,204,529	182	387,544,446	27	108,660,083	2	35,000,000
7. Water Environment and Natural Resources								
Environmental management and protection	29	100,410,919	11	36,061,080	15	61,329,404	3	3,020,435
General administration and support services	9	34,000,000	1	14,000,000	6	20,000,000	2	
Water supply services	273	704,088,232	220	559,105,577	35	72,839,629	18	68,378,387
Irrigation and drainage development	17	68,400,000	3	12,800,000	11	39,100,000	3	16,500,000
Forest development and management	13	20,123,032	4	5,973,022	8	13,950,010	1	200,000
Sub-Total	341	927,022,183	239	627,939,679	75	207,219,043	27	88,098,822
8. The Governorship								
Disaster management	4	97,000,000	4	97,000,000				
Public Administration	2	3,500,000	2	3,500,000				
Communication	4	6,830,000	4	6,830,000				
Ward Projects	1	10,346,000	1	10,346,000				
Sub-Total	11	117,676,000	11	117,676,000	-	-	-	-
9. Community Culture, sports and Social Services								
Youth development	17	321,450,000					9	40,585,728
Gender and social development	5	1,051,000,000				42,785,000		
Sports	9	217,000,000				69,021,219		
Child protection	5	361,000,000				4,926,350		
Culture	11	183,500,000				111,000,000		

2013-2017 CIDP Implementation Review Outlook								
	Budget Projects		Completed Projects		Ongoing Projects		Stalled/Not Started Projects	
Department Programmes	No	Amount in Kshs	No.	Amount in Kshs.	No	Amount in Kshs.	No	Amount in Kshs.
Tourism						14,200,000		
Ward development projects						44,700,000		
Sub-Total	47	2,133,950,000	-	-	-	286,632,569	9	40,585,728
10. Lands, Housing and urban Development								
Flagship Projects	34		1		12		11	
Sub-Total	34	-	1	-	12	-	11	-
Grand Total	1,250	8,761,907,454	770	2,171,252,238	264	1,590,145,380	168	1,960,676,284

Consequently, the Executive failed to complete and operationalize projects after investing some funds in them thus denying the community beneficial use of the facilities.

4.0 2017-18 Development Budget Projects Implementation Status

The Executive budgeted to implement seventy four (74) development projects estimated to cost Kshs.1,757,147,354 during the financial year 2017/2018. However, review of records indicated that as at the time of audit, the Executive had completed four (4) projects with a budget cost of Kshs.31,143,964 while seventy (70) projects budgeted to cost Kshs.1,726,003,390 remained unimplemented as analysed in the table below;

2017-18 Development Budget Project Performance Summary						
Departmental Projects Programmes:	Budgeted		Completed		Not Started	
	No.	Amount Kshs	No.	Amount Kshs	No.	Amount Kshs.
1. Department of Finance and ICT						
Financial Management and Control	1	13,793,964	1	13,793,964		
Information and Communication Services	3	18,400,000	2	15,600,000	1	2,800,000
Ward projects	1	1,750,000	1	1,750,000		
Sub-Total	5	33,943,964	4	31,143,964	1	2,800,000
2. Department of Trade Cooperative and Industry						
Trade Cooperative and Industry	7	67,000,000			7	67,000,000

2017-18 Development Budget Project Performance Summary						
Departmental Projects Programmes:	Budgeted		Completed		Not Started	
	No.	Amount Kshs	No.	Amount Kshs	No.	Amount Kshs.
Ward projects		67,982,123				67,982,123
Sub-Total	7	134,982,123	-	-	7	134,982,123
3. Department of Education and Vocational Training						
Basic Education	2	63,328,000			2	63,328,000
Education Support programmes	4	81,706,036			4	81,706,036
Ward projects	1	102,912,196			1	102,912,196
Sub-Total	7	247,946,232	-	-	7	247,946,232
4. Department of Agriculture						
Crop production and management	6	36,572,055			6	36,572,055
Agricultural Training Services	2	13,593,695			2	13,593,695
Agribusiness Development	1	29,500,000			1	29,500,000
Fisheries Development	6	30,300,000			6	30,300,000
Livestock Resources and Development	7	21,082,600			7	21,082,600
Ward Projects		31,193,734				31,193,734
Sub-Total	22	162,242,084	-	-	22	162,242,084
5. Department of Gender and Youth						
Social Services	3	3,767,270			3	3,767,270
Youth Empowerment	1	3,200,000			1	3,200,000
Children Services	1	1,000,000			1	1,000,000
Heritage and Culture	1	8,900,000			1	8,900,000
Tourism Development	1	4,000,000			1	4,000,000
Ward Projects		47,471,400				47,471,400
Sub-Total	7	68,338,670	-	-	7	68,338,670
6. Department of Roads and Public Works						
Roads Development Maintenance and management	5	653,955,504			5	653,955,504
Energy	3	13,500,000			3	13,500,000
Ward Projects		172,922,500				172,922,500
Sub-Total	8	840,378,004	-	-	8	840,378,004

2017-18 Development Budget Project Performance Summary						
Departmental Projects Programmes:	Budgeted		Completed		Not Started	
	No.	Amount Kshs	No.	Amount Kshs	No.	Amount Kshs.
7. Department of Lands, Housing and Urban Development						
Housing Development and management	3	10,000,000			3	10,000,000
County Urban Management and Development	4	30,000,000			4	30,000,000
Ward Projects		110,192,400				110,192,400
Sub-Total	7	150,192,400	-	-	7	150,192,400
8. Department of Water, Irrigation, Environment and Natural Resource						
Water Supply and Sewerage Services	6	45,700,346			6	45,700,346
Irrigation and drainage Development	1	7,799,654			1	7,799,654
Natural Resources management and Utilization	1	7,000,000			1	7,000,000
Forest development and management	1	4,000,000		-	1	4,000,000
Ward Projects		137,302,000				137,302,000
Sub-Total	9	201,802,000	-	-	9	201,802,000
9. The Governorship Office						
Disaster Management	2	27,800,000			2	27,800,000
Ward Projects		24,504,000				24,504,000
Sub-Total	2	52,304,000	-	-	2	52,304,000
Grand Total	74	1,892,129,477	4	31,143,964	70	1,860,985,513

Consequently, the Executive failed to implement projects amounting to Kshs.1,860,985,513 thus denying the citizens of Busia County the services they are entitled to.

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 matter described in the Conclusion on Lawfulness and Effectiveness in Use of Public Resources 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.

Basis for Conclusion

1. Acquisition of Assets

Note 11 to the financial statements reflects acquisition of assets during the year of Kshs.1,031,539,791. However, review of payment records at the time of audit revealed the following anomalies:

1.1 Incomplete and Stalled Extension of Water Pipelines Works

The Department of Water, Environment and Natural Resources gave out various contracts for extension of water pipelines to various companies at a contract sum of Kshs.11,796,200. However, field verification revealed that the projects were not done to completion and therefore remained unutilized as indicated in the table below:

No.	Contract No.	Payee	Amount Kshs.	Expected length (KM)	Remarks
1	BSA/CG/178/2016/17	DeonJoe	3,902,800	4	Line not in use
4	BSA/CG/171/2016/17	Josden Africa Ltd	3,893,400	4.1	Extension not complete
5	BSA/CG/217/2016/17	Vexmed Enterprises Ltd	4,000,000	4	Extension not complete
	Total		11,796,200	12.1	

Consequently, the validity of the expenditure of Kshs.11,796,200 as at 30 June 2018 could not be confirmed and no value for money was obtained on this expenditure.

1.2 Delayed Construction of Early Childhood and Development Centers (ECD)

The Department of Basic Education and Vocational Training awarded various contracts for construction of ECD centers to various companies at a contract sum of Kshs.7,467,177 all of which had project duration of eighty (80) working days as tabulated below.

Contract Detail	Contractor	Contract Sum Kshs.
Construction of ECD classroom at Dirakho Primary School	Fredopen General Engineering Works Ltd	1,167,084
Construction of ECD classroom at Luliba Primary School	Hass contractors	646,215
Construction of ECD classroom at Sifugwe Primary School	Paotoku contractors ltd	640,141
Construction of ECD at Emagombe Primary	Malareva General Contractor And Supplies Limited	578,395
Construction of ECD classroom at Makongeni Primary School	Murwa engineering ltd	529,637
Construction of ECD classroom at Elunyiko Primary School	Sunset Acacia Ltd	967,000
Construction of ECD classroom at Busende Primary School	Busimbe Construction Ltd	1,142,310
Construction of ECD classroom at Akobwait Primary School	Sezze Logistics Ltd	755,317
Construction of ECD classroom at Kengatunyi Primary School	Dimba Ltd	1,041,079
Total		7,467,177

However, physical verification of the facilities revealed that they remained incomplete and not in use despite the lapse of the contract periods.

Consequently, the Executive did not achieve value-for-money in the expenditure of Kshs.7,467,177 as at June 2018.

1.3 Proposed Construction and Renovations of Market Centers

The Department of Trade, Cooperatives and Industrialization implemented projects costing Kshs.3,851,088 as tabulated below:

Project Name	Contract No.	Contract Sum Kshs.	Start date	Cumulative Payment to date Kshs.	Status
Proposed construction of market shed at Nambuku market	BSA/CG/86/2016/17	598,418	25/8/2016	538,576	Phase 1/slab completed and Phase 11 not budgeted for
Proposed construction of market stall and pit latrine at Ganjala market	BSA/CG/226/2016/17	3,997,960	9/1/2017	2,158,981	Completed and handed over but not in use
Proposed renovation works at Muruka market	BSA/CG/110/2015/16	1,281,701	16/5/2017	1,153,531	Market constructed under ESP before devolution Renovation works done but market has never been used
Total				3,851,088	

However, field verification revealed that the projects remained incomplete and not in use. Consequently, the validity of the expenditure of Kshs.3,851,088 as at June 2018 could not be confirmed and value for money was not realized.

1.4 Development, Implementation and Maintenance of a Web-Based Geographical Information System

The Department of Finance and ICT entered into a contract for the to develop, implement and maintain a web-based Geographical Information System that would digitize the county's survey plans and enable linkage with the revenue collection system for effective and efficient collection, administration and management of land rates at a cost of Kshs.5,987,920 .

The contract was to be executed within a period of eighteen (18) weeks. The scope of work included training fifteen youths, managing the conversion of survey plans to the digital database, avail the GIS software to host the date converted to a scalable digital database. Verification of the project on 16 December 2018 revealed that its deployment

was complete and handed over. However, the Executive had not fully adopted the system modules.

In the circumstances, the County Executive did not realize value for money through the deployment of the revenue automation system.

2. Receipts

2.1 Arrears of Revenue

Review of local revenue records revealed that the Department of Revenue had not collected outstanding property rates relating to land rates, rent from commercial properties and county market stalls amounting to Kshs.177,025,844 as indicated in the table below;

Sub County	Amount Kshs
Butula	4,085,162
Budalangi	2,402,900
Nambale	33,733,008
Teso North	6,019,330
Matayos	128,565,444
Teso South	2,220,000
Total	177,025,844

In addition, the Department had not collected arrears for water revenue amounting to Kshs.7,611,874 in various sub-counties as summarized below;

Revenue Source	Amount Kshs
Butula water supply	915,702
Munana water supply	722,481
Busijo water supply	565,578
Onana water supply	624,832

Busia hills water supply	2,171,218
Port Victoria water supply	2,612,063
Total	7,611,874

Consequently, the management was in breach of Regulation 63(1a) of the PFM Regulations (County Government, 2015) which states that an accounting officer and a receiver of revenue are personally responsible for ensuring that adequate safeguards exist and are applied for the prompt collection and proper accounting for all county government revenue and other public monies relating to their county departments or agencies.

2.2 Spending at Source

Review of revenue records from various hospitals within Busia County established that not all revenues were being banked intact into the County Revenue Fund. The total collections for the financial year was Kshs.40,147,069 while the banking's were Kshs.18,728,778 indicating that Kshs.21,418,291 was spent at source as tabulated below:

Hospital	Total Collection Kshs	Total Banking Kshs	Under-banking Kshs
Busia	13,353,729	5,904,311	7,449,418
Alupe	4,462,561	1,991,603	2,470,958
Kocholya	11,709,146	6,129,562	5,579,584
Khunyangu	2,814,968	2,498,679	316,289
Port Victoria	5,672,794	1,315,908	4,356,886
Sio Port	661,275	451,535	209,740
Nambale	1,472,596	437,180	1,035,416
Total	40,147,069	18,728,778	21,418,291

Consequently, the Department of Health and Sanitation was in breach of Section 109(2) of the Public Financial Management Act, 2012 which provides that all money raised or received by or on behalf of the County Government is paid into the County Revenue Fund.

3. Over Deduction of Staff Salaries

Review of the Executive's payroll revealed that the following number of staff members were subjected to over deductions, leaving their net take home to less than a third of their basic monthly earnings contrary to the Government policy;

Month	No of Staff with Salary Deductions in Excess of 2/3rd
July 2017	37
August 2017	25
September 2017	14

Consequently, the Executive was in breach of Section 19(3) of the Employment Act, 2007 which permits an employer to make deduction from an employee's salary provided the employee takes home not less than one-third of his salary.

My responsibility is to express a conclusion based on the review. The review was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the review so as to obtain limited 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 Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing 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. Under Collection of Local Revenue

During the year under review, the Executive had projected to collect local revenue amounting to Kshs.475,511,846. However, the Executive realized revenue totaling to Kshs.177,771,330 hence resulting to revenue shortfall of Kshs.297,740,516 representing

63% of the budgeted revenue. Further analysis revealed that there was a drastic drop in revenue collection by an amount of Kshs.77,461,799 representing a 43.6% as compared with previous financial year 2016/17 whereby Kshs.255,233,129 had been collected.

In the circumstances, the Executive failed to meet its revenue targets due to weak controls over revenue collection.

2. Governance and Internal Control

An audit committee had not been established as required by Regulation 167 of the Public Financial Management (County Government) Regulations of March 2015. Further, the management had not developed and implemented a risk management framework and policy.

3. Information and Communication Technology (ICT) Policies

The County Executive had not developed, approved and implemented any ICT policies despite engaging consultants for the same. A local consultant had been paid an amount of Kshs.8,710,085 as part payment for development of an IT policy. Consequently, there was non-effective use of funds and management of the Executive's ICT assets.

My responsibility is to express a conclusion based on the review. The review was conducted in accordance with ISSAI 1315. The standard requires that I plan and perform the review so as to obtain limited assurance as to whether effective processes and systems of internal control, risk management and 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.

In preparing the financial statements, management is responsible for assessing the Executive'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 liquidate the Executive's or to cease 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 Executive'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. 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 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 judgment 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 Executive'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 Executive'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 Executive's 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 Executive's 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 February 2019