

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

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of County Executive of Busia set out on pages 1 to 33, which comprise of the statement of assets and liabilities as at 30 June, 2019, statement of receipts and payments, statement of cash flows and the summary statement of appropriation: 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, in all material respects, the financial position of the County Executive of Busia as at 30 June, 2019, 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 do not comply with the County Governments Act, 2012 and the Public Finance Management Act, 2012.

Basis for Adverse Opinion

1.0 Errors in Presentation of the Annual Reports and Financial Statements

The annual reports and the financial statements submitted for audit had the following errors: -

- i. The summary statement of appropriation: recurrent and development combined does not include explanatory notes for material variances between the approved budget balances and actual balances.
- ii. The statement of budget execution by programme and sub-programme is missing.
- iii. The Integrated Financial Management Information System (IFMIS) reports and bank reconciliation statements are not included as required.

This is contrary to the format prescribed by the Public Sector Accounting Standards Board (PSASB).

Consequently, the annual report and the financial statements for the year ended 30 June, 2019 as prepared and presented are not compliant with IPSAS.

2.0 Variances Between Financial Statement Balances and IFMIS Report Balances

Review of the financial statements presented for audit against details from the Integrated Financial Management Information System (IFMIS) revealed the following difference: -

Item	Financial Statements Balance Kshs.	IFMIS Balance Kshs.	Variance Kshs.
Receipts	6,851,023,451	4,969,852,417	(1,881,171,034)
Payments	6,734,976,249	5,566,743,522	(1,168,232,727)
Cash and Bank	1,870,578,938	7,879,658,051	6,009,079,113
Receivables	7,503,126	512,042,622	504,539,496
Payables	25,751,148	11,866,358,984	11,840,607,836

Management did not provide reconciliations or explanations for the variances.

Consequently, the accuracy of the financial statements could not be confirmed.

3.0 Variances Between Financial Statements and Ledger Balances

Review of the financial statements balances against the ledgers provided revealed the following differences: -

Item	Ledger Balance Kshs.	Financial Statements Balance Kshs.	Variance Kshs.
Compensation of Employees	2,516,979,135	2,430,605,593	86,373,542
Use of Goods and Services	1,936,460,318	1,230,768,504	705,691,814
Account Receivable	2,028,620	7,503,126	(5,474,506)
Accounts payable	0	25,751,148	(25,751,148)
Pending Bills	771,553,534	767,444,279	4,109,255

Management did not avail explanations or reconciliations in support of the variances.

Consequently, the accuracy of the financial statements could not be confirmed.

4.0 Variances in Balances Brought Forward

Review of the opening balances in the financial statements for the year under review against the closing balances from the previous financial years revealed the following differences: -

Item	2017/18 Audited Financial Statements Balance Kshs.	2018/2019 Financial Statements Opening Balance Kshs.	Variance Kshs.
Exchequer Releases	5,870,286,000	6,558,598,326	(688,312,326)
Proceeds from Domestic and Foreign Grants	613,007,715	231,792,232	381,215,483
County Own Generated Receipts	177,771,330	177,497,985	273,345
Fund balance brought forward	1,731,222,290	1,717,713,454	13,508,836

Management did not provide explanations on the variances and did not make any restatements.

Consequently, the accuracy and validity of the financial statements could not be confirmed.

5.0 Unsupported Cash and Cash Equivalents

The statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.1,870,578,938 comprising a cash balance of Kshs.460,790 and a bank balance of Kshs.1,870,118,148. However, Management did not avail the Board of Survey report and bank reconciliation statements for audit review. In addition, the cash books availed for audit were not properly maintained or balanced on monthly basis contrary to Regulation 90 of the Public Finance Management (County Governments) Regulations, 2015 which requires Accounting Officers to ensure that bank reconciliations are completed every month for each bank account and the statements are submitted to the County Treasury with a copy to the Auditor-General not later than the 10th of the subsequent month.

Further, the statement of cash flows reflects a cash and cash equivalents balance of Kshs.1,852,330,916 resulting to an unreconciled and unexplained difference of Kshs.18,248,022 between the two statements.

Consequently, the accuracy, completeness and validity of the cash and cash equivalents balance of Kshs.1,870,118,148 reflected in the statement of assets and liabilities as at 30 June, 2019 could not be confirmed.

6.0 Unaccounted for Receipts

The statement of receipts and payments reflects receipts of Kshs.6,851,023,450. Included in this was an amount of Kshs.299,373,277 in respect of Own Generated Revenue as disclosed under Note 9 to the financial statements. Review of revenue records from various hospitals within Busia County established that not all revenues were banked intact into the County Revenue Fund. Revenue collections for the financial year totalled Kshs.89,704,103 while the banking was Kshs.74,530,925.00 resulting to under banking of Kshs.15,173,178.00.

Consequently, the accuracy, completeness and validity of receipts of own generated revenue amount of Kshs.299,373,277 reflected in the statement of receipts and payments for the year ended 30 June, 2019 could not be confirmed.

7.0 Unsupported Transfers to Other Government Units

The statement of receipts and payments reflects transfers to other government units of Kshs.790,857,288 as disclosed under Note 13 to the financial statements. This was a transfer to the County Assembly of Busia. However, the financial statements of the County Assembly of Busia reflects an amount of Kshs.797,177,530 as receipt from the County Executive, resulting to an unexplained and unreconciled variance of Kshs.6,320,242.

Consequently, it has not been possible to confirm the accuracy of the transfers to other government units of Kshs.790,857,288 reflected in the statement of receipts and payments for the year ended 30 June, 2019.

8.0 Irregular Charge of Expenditure

The statement of receipts and payments reflects acquisition of assets balance of Kshs.1,497,593,783 as disclosed under Note 16 to the financial statements. The balance includes research, studies, projects preparations, design and supervision payments of Kshs.667,774,863 which further includes a payment of Kshs.225,370,566 in respect of pre-feasibility studies. However, it was noted that the nature of these expenditures did not relate to pre-feasibility studies but rather related to other expenses including projects, office administration, public participation and solar pumping units.

Consequently, the accuracy, completeness and validity of the acquisition of assets balance of Kshs.1,497,593,783 reflected in the statement of receipts and payments for the year ended 30 June, 2019 could not be confirmed.

9.0 Misallocation of Funds

Management incurred expenditure of Kshs.31,837,920 on retention money and taxes to Kenya Revenue Authority. However, the expenditure was paid out of recurrent account and not from retention account where the deductions from the respective suppliers were supposed to have been deposited.

Consequently, the accuracy, completeness and validity of the expenditure totalling to Kshs.31,837,920 for the year ended 30 June, 2019 could not be confirmed.

10.0 Inaccuracy of Fixed Assets Register

The assets register maintained by Management did not include the assets that were taken over from the defunct local authorities when the County Government was established. Further, no handing over and taking over report in respect to assets and liabilities of the defunct local authorities in support of the assets and liabilities taken over by the County Executive was availed for audit review.

Consequently, the accuracy of the fixed assets listed at Annex 5 to the financial statements amounting to Kshs.7,997,374,104 as at 30 June, 2019 could not be confirmed.

11.0 Inaccuracies in Pending Bills

The forward statement by the County Executive Committee Member (CECM) for Finance, Economic Planning and ICT indicated that the pending bills balance amounting to Kshs.993,302,269 was brought forward from 2017/2018 financial year and as reported in Annex 1 to the financial statements. However, the balance carried forward from 2017/2018 financial year was Kshs.995,278,628 leading to an unreconciled and unexplained variance of Kshs.1,447,289.

The County Executive made payments of Kshs.356,922,544 for pending bills during the year while bills accumulated to Kshs.134,010,737 resulting in a net decrease of Kshs.222,911,807. However, the forward statement by the County Executive Committee Member (CECM) for Finance, Economic Planning and ICT indicated that the pending bills reduced from Kshs.993,302,269 to Kshs.767,444,279 resulting in a net decrease of Kshs.225,857,990 during the year under review. This led to an unreconciled and unexplained variance of Kshs.2,946,183.

In addition, Management reported pending bills amount of Kshs.767,444,279 as at 30 June, 2019. However, this did not take into account pending staff payables of

Kshs.3,475,253. Had this been taken into account, the pending bills would have been reported at an amount of Kshs.770,919,532.

Consequently, the accuracy of the pending bills is in doubt due to the various unreconciled and unexplained variances.

12.0 Irregular Expenditure to Council of Governors

Management incurred Kshs.7,179,691 relating to transfers to the Council of Governors. However, the expenditure was incurred in contravention of Section 37 of the Intergovernmental Relations Act, 2012 which stipulates that the Council's budget shall be provided for in the annual estimates of the revenue and expenditure of the National Government.

Consequently, the payment of Kshs.7,179,691 to the Council of Governors was not lawful.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the County Executive 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 adverse 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 were no key audit matters to report in the year under review.

Other Matter

1.0 Effects of the Fire Reported in the Finance Department on the Financial Statements

On the early morning of 25 September, 2019 at 2am, a fire broke out at the registry section of the finance department of the County Executive of Busia. Volumes of files belonging to various departments were partly or wholly destroyed. The fire damaged three ordinary filing cabinets and the safety of documents in two fireproof cabinets could not be ascertained. Management investigated the course of the fire, but, the investigation did not identify or list the specific documents that were destroyed or the extent of destruction.

In addition, Management indicated that informal communication was made to the Directorate of Criminal Investigations (DCI) to have the fire investigated which is yet to be finalised.

2.0 Budget Control and Performance

The summary statement of appropriation: recurrent and development combined reflects approved expenditure budget of Kshs.8,403,635,847 against approved budget receipts of Kshs.7,195,980,752 resulting to a variance of Kshs.1,207,655,095. This is contrary to Regulation 31(c) of the Public Finance Management (County Governments) Regulations, 2015 which provides that the budget be balanced. The statement reflects final receipts budget and actual on comparable basis of Kshs.7,195,980,752 and Kshs.6,851,023,451 respectively resulting to an under-funding of Kshs.344,957,301 of the budget. The local revenue balance was Kshs.299,373,277 against the budgeted amount of Kshs.452,519,666 resulting to an under collection of Kshs.153,146,389 or 34% of the budget.

Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.8,403,635,847 and Kshs.6,734,976,248 respectively, resulting to an under-funding of Kshs.1,668,659,599 or 20% of the budget. Management did not provide any reason for the under expenditure and under collection of the local revenue or the efforts being made to improve on the local revenue collection.

Based on the approved estimates, the under funding and under expenditure affected the planned activities and may have impacted negatively on service delivery to the public.

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 public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1.0 Unsatisfactory Renovation of the General Ward at Port Victoria Hospital

Management paid a local contractor an amount of Kshs.1,498,256 in respect of repair and terazzo finishings for the General Ward at Port Victoria Hospital. The works were to commence on 7 May, 2018 and be completed on 30 November, 2018. Although the work had been done and certified by the monitoring and evaluation team, a site visit of the project for audit inspection in November, 2019 revealed cracks on the terrazzo floor. Management did not explain measures in place to ensure the work was done in accordance with the contractual terms.

Consequently, it was not possible to confirm that value for money was realised in the renovation of the General Ward at Port Victoria Hospital.

2.0 Unsupported Construction of Biogas Toilets

Management undertook construction of two (2) biogas toilets at Mulukoba Beach and Omena Beach in Bunyala West Ward at a contract sum of Kshs.6,999,488 during the 2017/2018 financial year. This amount was paid in full during the financial year 2018/2019. On completion, the toilets were to produce biogas for domestic cooking. However, during physical verification at Mulukoba Beach in November, 2019, it was noted that usage was too low at an average of six (6) users per week according to the records whereas at Omena Beach there was no bio gas.

Further, feasibility study for the project before implementation had not been carried out. Further, completion certificates in respect of the projects together with the report of the inspection and acceptance committee were not availed for audit review.

Consequently, it was not possible to confirm whether value for money was realised on the construction of the biogas toilets or whether it was a viable project.

3.0 Faulty Laundry Machine

Management awarded a local firm a contract for supply, delivery, installation, testing and training of users of the three (3) laundry machines at a contract sum of Kshs.7,800,000. The contract was to commence on 17 December, 2018 and be completed on 17 June, 2019. As at the time of audit in November, 2019, the laundry machine installed at Port Victoria Hospital was not working as it was said to be faulty. Although the contract sum of Kshs.7,800,000 had not been paid as at 30 June, 2019 and formed part of the pending bills, the inspection and acceptance certificate was not fully signed. Also, there was no information on the action taken by the Management to ensure that the faulty machine was repaired or replaced.

Under the circumstances, it was not possible to confirm whether value for money was realised on the installation of the laundry machines.

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 internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1.0 Non- Adherence to IT Internal Controls

Management did not have an approved IT Steering Committee, ICT asset management policy or strategic and data recovery plans. There were also no formal and documented emergency procedures, IT continuity plan, proper air conditioning in the server rooms or approved IT policies such as unique user names and account management policy. The computers were not installed with antivirus, hence exposing the data and information to risks of loss.

Consequently, the IT assets of the County Executive are at risk and the information may be compromised.

2.0 Manual Payroll Processing

The balance on compensation of employees of Kshs.2,430,605,593 as reflected in the statement of receipts and payments includes salary payments totalling Kshs.109,110,459 made to employees through a manual payroll.

Payment of salaries outside the IPPD payroll system contravenes Chapter 8 of the Accounting and Financial Reporting Manual for County Governments, which requires that all personal and payroll details should be reflected in each employee's IPPD data sheet and increments on salary points be automatically effected on IPPD.

Consequently, Management is in of breach the regulations.

3.0 Lack of Risk Management Policy Framework

Management had not designed and developed a basic risk management policy framework to provide necessary direction on how operations would be conducted in the event of occurrence of a disaster.

Consequently, the business operations of the County Executive are seriously exposed and likely to stall in the event of possible occurrence of disaster.

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 Executive'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 the Management is aware of intention to dissolve the County Executive 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 Executive'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 policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement 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.

- 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 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 County Executive 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 Executive 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.

From the matters communicated with Management, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. These matters are described in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication



CPA Nancy Gathungu CBS
AUDITOR-GENERAL

Nairobi

19 April, 2021