

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
COUNTY GOVERNMENT OF
BUSIA**

**FOR THE YEAR ENDED
30 JUNE 2015**



OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON COUNTY GOVERNMENT OF BUSIA FOR THE YEAR ENDED 30 JUNE 2015

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of County Government of Busia set out on pages 8-53, which comprise the statement of financial assets as at 30 June 2015, and the statement of receipts and payments, summary statement of appropriation: recurrent and development and statement of cash flows 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 8 of the Public Audit Act, 2003. 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.

Management's Responsibility 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.

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 4 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 7 of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the

County Government's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for Qualified Opinion

1.0 Undisclosed Fixed Assets

The statement of receipts and payments reflects an amount of Kshs.1,100,331,325 in respect of acquisition of asset for the year ended 30 June 2015. However, included in these amount of Kshs.1,100,331,325 for acquisition of assets, and as disclosed under Note 18 to the financial statements, only Kshs.385,739,036 has been reflected as assets acquired during the year 2014/2015. The resulting difference of Kshs.714,592,289 has not been explained or supported including purchase of land and medical equipments worth Kshs.10,755,981 and Kshs.142,811,987 respectively. Further, the assets acquired in the previous years and those inherited from the defunct Local Authorities in Busia County have not been disclosed or incorporated. In addition, the County has not maintained a fixed assets register.

In the circumstances, the disclosure, presentation, completeness, valuation and accuracy of the county fixed assets could not be confirmed as at 30 June 2015.

2.0 Cash and Cash Equivalents

2.1 Cash at Bank

The County Executive of Busia operated twenty five bank accounts during the year which had closing balances totaling to Kshs.534,189,995 as at 30 June 2015. The main standing imprest account at the Co-operative bank had a reported balance of Kshs.40,044,797.92.

2.2 The County Assembly of Busia made cash withdrawals from operational bank account maintained at the Kenya commercial bank – Busia branch during the two months of August, 2014 and September 2014 of Kshs.8,994,534 and Kshs.7,482,472.00 respectively which considered was excessive, contrary to National Treasury regulations of cash limit of Kshs.700,000.00 per week.

2.3 Further, the County Assembly's cash and cash equivalents balance of Kshs.29,798,637.00 as at 30 June 2015 includes cash receivable of Kshs.9,224,460 in respect of car mortgage recovered through the payroll by the County Executive but not remitted to the County Assembly.

In addition, Kshs.27,594,213 in respect of imprests recovered through the payroll by the County Executive had not been remitted to the County Assembly. It is not clear why the County Executive failed to remit this amount to the County Assembly.

Consequently, the accuracy of the cash and cash equivalents balance of Kshs.535,909,942 could not be confirmed as at 30 June 2015.

3.0 Outstanding Imprest and Advances

The statement of assets and liabilities as at 30 June 2015 reflects outstanding imprest of Kshs.23,627,715. However, the balance includes a total imprest of Kshs.15,608,732 which is long overdue with some dating as far back as 2013. Further, staff advances of Kshs.8,018,983 have remained unrecovered.

In view of the foregoing, it has not been possible to confirm the recoverability of the outstanding imprests and advances of Kshs.23,627,715 as at 30 June 2015.

4.0 Un-vouched Expenditure – Departments of Agriculture and Lands

Expenditure incurred by the department of agriculture and department of lands of Kshs.29,759,140 and of Kshs.43,002,481 respectively amounting to Kshs.72,761,720 could not be verified as the procurement documents in support were reportedly held by the Ethics and Anti-Corruption Commission. Further, the department of lands, housing and urban development paid Kenya Revenue Authority Kshs.1,335,269 and Danelec Electrical Kshs.23,262,456 totalling to Kshs.24,597,726 however, the relevant payment vouchers were not made available for audit review.

Consequently, the propriety of the expenditure of Kshs.97,359,446 could not be confirmed as at 30 June 2015.

5.0 Ministry of Health and Sanitation

5.1 Irregular payment for Equipments and Supplies

A Non-Governmental Organization was paid Kshs.11,000,000.00 allegedly for the purchase and shipment of medical equipment donated to the County.

A Deed of Donation from the World Medical Relief, Inc – “the donor” clearly states that the equipment & supplies donated are free gift for charitable purposes only. However, a pro-forma invoice presented by Relief for Africa a clearing agent indicates that the equipment and supplies were purchased and the cost includes processing, equipment upgrade, servicing costs and consultancy fees.

As at the time of audit in March 2016 the items had not been delivered though management indicates delivery was done thereafter. The breakdown of what was donated and/or paid for and cost of transport to the County was not clearly explained.

In view of the foregoing, the propriety of the payment of Kshs.11,000,000 could not be confirmed as at 30 June 2015.

5.2 Irregular Payments for Human Resource Meeting

An officer was paid Kshs.1,084,000.00 to facilitate attendance of a Human Resource meeting at Royal City Hotel in Kisumu County. However, the training support schedules were not provided for audit review. Further, transport allowance was irregularly paid to attendants as no supporting bus tickets/taxi receipts were attached. In addition sitting allowance was paid to participants for attendance.

The propriety of the expenditure of Kshs.1,084,000 could not be confirmed as at 30 June 2015.

6.0 Stalled Maternity/New Born Unit - Busia Referral Hospital

The construction of a maternity and new born unit at Busia Referral Hospital at a cost of Kshs.44,412,467.60 commenced in August 2014. A total of Kshs.31,587,960.00 (71%) of the contract amount has been paid.

However, the project remained stalled at a suspended slab and is at below 50% complete with no sign of contractor on site. Further, the project design and progress report were not made available for audit review.

In the circumstances, the County has not received value for money spent and county residents have not received the promised and planned facilities and services worth Kshs.31,587,960.00 as at 30 June 2015.

7.0 Nugatory Payments - Ministry of Water and Natural Resources

Two firms (Norb Agencies and Maersh (K) Ltd) were paid a total of Kshs.6,106,117.00 to supply and plant tree seedlings at Amukura hills and Sio Sitekho wetland. Site visits in January, 2016 revealed that only 20 seedlings could be physically seen on the ground. The project failure could not be explained or funds accounted for.

Consequently, no value for money was obtained from the expenditure of Kshs.6,106,117.00 as at 30 June 2015.

8.0 Ministry of Trade, Tourism, Co-operative Development and Industrialization

8.1 Irregular Construction of Marenga Fish Filleting Plant

An Engineering firm was awarded the works of construction and completion of a fish filleting plant in Marenga at a total cost of Kshs.9,704,078.00. The work was to commence in July 2014 with scheduled completion date of November 2014 but was still incomplete as at 31 December 2015.

However, the relevant procurement records were not made available for audit. Further, facilities such as a laboratory room, equipment store, a septic tank plus sock pit all necessary for the effective operation of the plant were not provided for in the project implying that the facility may not operate effectively once complete.

8.2 Irregular Expenditure -Mulwanda Ginnery

A construction firm was awarded a contract for the works of repairing and painting Mulwanda Cotton Ginnery at a total cost of Kshs.4,972,260.00 with a scheduled commencement date of August 2014 and a completion date of the same month. However, Kshs.4,475,034.00 had been paid out in respect of the project though it is incomplete and not operational. Further, procurement records, progress reports and certificates of works completion/done to support payments were not provided for audit review while the works carried were poorly done.

In the circumstances, the propriety of the expenditure of Kshs.4,475,034.00 could not be ascertained as at 30 June 2015.

8.3 Unsupported Payment

Payment vouchers totaling Kshs.13,913,703.00 were either partially or not supported. Consequently, the propriety of the expenditure of Kshs.13,913,703.00 could not be confirmed as at 30 June 2015.

9.0 Pending Bills

The County Government had pending bills of Kshs.203,142,778 (Note 26.1 and Annex 1) as at 30 June 2015. However, the supporting details such as contract numbers, invoices and payment vouchers were not provided for audit verification. Further, carrying forward pending bills distorts the budget for the subsequent year in which they are paid.

In the circumstances, the validity, completeness and propriety of the pending bills of Kshs.203,142,778 as at 30 June 2015 could not be ascertained.

10.0 Irregular Sitting Allowances and Unremitted PAYE

10.1 Examination of the attendance register revealed that in some instances members of the county assembly (MCAs) closed out were at a later date irregularly inserting their names and therefore earned Kshs.780,000 in allowances for sittings they were not entitled to. Further, 26 MCAs were paid plenary sitting allowances using departmental committee rates resulting into an overpayment of Kshs.4,222,400. In addition, 33 MCAs were paid Kshs.21,333,000 in excess of the maximum monthly sitting allowances entitlement. Lastly, the reported cumulative members' sitting allowances was understated by Kshs.4,098,700.

10.2. Unremitted PAYE recovered from payment of sitting allowances to Members of the County Assembly amounting to Kshs.15,512,550 was not duly remitted and received by the Kenya Revenue Authority.

In view of the foregoing, the County Assembly appear to have lost Kshs.26,335,400 in irregular sitting allowances and failed to remit PAYE of Kshs.15,512,550 Kenya Revenue Authority as at 30 June 2015.

11.0 Mortgage and Car Loan Revolving Fund

Each of the 54 members of the County Assembly were granted loan facilities amounting to Kshs.5,000,000 comprising of Kshs.3,000,000 for mortgage and Kshs.2,000,000 for car loan. The mortgage amount of Kshs. 3,000,000 was fully disbursed to members without provision of supporting documents for the intended purchase or construction.

Further, Legal fees amounting to Kshs.6,390,518 in respect of processing charges for both the land and the motor vehicles were also borne by the fund instead of by the beneficiaries

No log book or joint ownership documents together with comprehensive insurance cover for the vehicles acquired were provided for audit review.

In view of the foregoing, the probity, security and recovery of the loan disbursements of Kshs.270,000,000 could not be assured and confirmed as at 30 June 2015.

12.0. Unfinished County Assembly Office Block Payments

The County assembly contracted a firm vide contract no. BSA/CTA/82/2013-2014 for the completion of a two storey building at a cost of Kshs.22,359,776 and had been paid Kshs.22,359,776 as at 30 June 2015. However, the project appeared stalled as at the time of audit two months after the expected completion date and the contractor was not on site.

As a result, the propriety and value for money from the expenditure of Kshs.22,359,776 could not be ascertained as at 30 June 2015.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statement present fairly, in all material respects, the financial position of the County Government of Busia as at 30 June 2015, 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.

Other Matter

1.0 Financial Performance

The County Government's approved Estimate for 2014/2015 was Kshs.6,316,991,516.00 but managed to spend Kshs.5,151,577,284 resulting to an under expenditure of Kshs.1,165,414,232 which translates to 82% of the expected performance.

1.1 Local Revenue/Receipts Collection

The County Government collected own revenue of Kshs.310,003,628 against approved estimates amount of Kshs.325,485,073 translating to 95% performance.

Local Revenue Collection per Source – 2014/2015

Revenue Item	Budget2014/15 (Kshs)	Actual 2014/15 (Kshs)	Variance (Kshs)	Variance %
Administrative Services Fee	30,310,000.00	32,613,715.00	2,303,715.00	8
Business Permits	41,798,289.00	43,034,366.00	1,236,077.00	3
CESS	44,500,000.00	30,365,095.00	(14,134,905.00)	(32)
Fines, Penalties and Forfeitures	1,500,000.00	33,500.00	(1,466,500.00)	(98)
Interest from Car and Mortgage	12,310,000.00	-	(12,310,000.00)	(100)
Market/Trade centres' Fees	24,000,000.00	24,719,420.00	719,420.00	3
Other Local Levies	200,000.00	12,440.00	(187,560.00)	(93)
Other Miscellaneous Revenues	16,575,274.00	29,050,621.00	12,475,347.00	75
Plot Rents	10,300,000.00	3,026,262.00	(7,273,738.00)	(71)
Public health Services	2,000,000.00	3,526,186.00	1,526,186.00	76
Receipts from Administrative Fees and charges collected as AIA	36,510.00	258,420.00	221,910.00	600
Receipts from sales by non-market establishments	3,000,000.00	2,549,200.00	(450,800.00)	(15)
Rents	5,900,000.00	2,529,926.00	(3,370,074.00)	(57)
School Fees	300,000.00	72,150.00	(227,850.00)	(76)
Sewerage Administration	500,000.00	-	(500,000.00)	(100)
Slaughter houses administration	155,000.00	787,320.00	632,320.00	408
Social Premises Use Charges	3,050,000.00	81,000.00	(2,969,000.00)	(97)
Vehicle parking Fees	125,000,000.00	134,249,383.00	9,249,383.00	7
Water Supply administration	4,050,000.00	3,094,624.00	(955,376.00)	(26)
Total	325,485,073	310,003,628.00	(15,481,445.00)	(5)

The county to strive to achieve its local revenue collection target to enhance its service delivery.

1.2 Project Performance

The County Government had planned to undertake projects estimated to cost a total of Kshs.2,946,128,476 (Appendix 5). However, a total of Kshs.2,142,723,315 was spent on the projects resulting to unimplemented projects worth Kshs.803,405,151 as at 30 June 2015.

Further, projects worth Kshs.192,687,640 and Kshs.499,278,544 for the Ministry of Agriculture and Ministry of Health and Sanitation respectively where Kshs.246,913,172 had been paid out were incomplete long after the completion date of June 2015. Undue delay in project completion denies the public prompt and responsive services.

1.3 Project Implementation Payments

PROJECT/Department	Budget (Kshs.)	Contract Sum (Kshs.)	Actual Expenditure (Kshs.)	Difference (Kshs.)
Agriculture And Resource	186,687,640	186,687,640	106,659,665	80,027,975
Education And Vocational Training	149,154,803	149,154,803	118,999,966	30,154,837
Community Development, Culture, Sport And Social Services	107,515,707	107,515,707	71,181,577	36,334,130
Land, Housing, And Urban Development	111,762,563	111,762,563	61,670,426	111,700,893
Trade, Cooperative Tourism	64,200,000	64,200,000	40,614,823	23,585,177
Finance And Economic Planning	1,172,939,543	1,172,939,543	858,244,425	314,695,118
Office Of The Governor	52,470,000	52,470,000	32,393,365	20,076,635
Deputy Governor	5,000,000	5,000,000	5,000,000	0
Dept Of Health And Sanitation	390,456,437	390,456,437	348,587,115	41,869,322
Water Environment And Natural Resource	241,585,316	241,585,316	126,792,343	114,792,973
Road And Public Work	341,037,051	341,037,051	341,037,051	0
ICT Department	48,248,766	48,248,766	31,915,202	16,333,564
County Assembly	75,070,650	75,070,650	61,236,113	
	2,946,128,476	2,946,128,476	2,142,723,315	803,405,161

Consequently, the County Government did not meet its performance objectives and the residents did not receive the planned and budgeted services as at 30 June 2015.

2.0 County Assembly Actual and Revenue Budget Variation

County Assembly Budgeted Receipts for the year 2014/2015 was Kshs.735,283,955.00. However, only Kshs.666,172,558.00 had been received as at 30th June 2015. No explanation was given for failure of the executive to remit the balance of Kshs.69,111,397 as expected.

As a result, it is not clear what steps are being taken to correct these anomalies.

3.0 Lack of Approved Staff Establishment

The County has a work force of 2701 with a wage bill of Kshs.2,036,477,042 as at 30 June 2015. However, the County Public Service Board has not put in place an approved staff establishment for the County's planning and staff development. Consequently, it could not be confirmed whether the staffing levels were optimal and reasonable for effective and efficient service delivery.

My opinion is not qualified in respect of these matters.



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

Nairobi

26 September 2016