

**ANALYSIS OF THE
AUDITOR GENERAL'S
REPORTS**

**ON THE FINANCIAL STATEMENTS
OF BUSIA COUNTY EXECUTIVE
2015/16 - 2017/18**

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1.0 Introduction

The Constitution of Kenya 2010 provides for devolved government and indicates the functions as promoting social and economic development and the provision of proximate, easily accessible services throughout Kenya. One of the main purposes of devolution is to bring public finances closer to citizens in a manner that would allow them to have a voice on how county funds were planned for and used. Kenya has appropriate legislation to ensure that public funds entrusted in the hands of public entities are used effectively and efficiently used for the benefit of the people of Kenya. The legislation that governs the use and management of public funds include:

- o The Constitution of Kenya, 2010
- o Public Finance Management Act, 2012
- o Public Audit Act, 2015
- o Public Procurement and Asset Disposal Act, 2015

The Office of the Auditor General was established as an independent body under Article 248(3) of the Constitution and Public Audit Act of 2015. The mandate of the Auditor General is to audit the accounts of all public entities and give an opinion based on the availability of information and material needed for an audit; maintenance of proper records in accordance to the Generally Accepted Accounting Practices (GAAP) and the reflection of a fair and accurate financial position of the audited entity. The Auditor General is required to perform an audit based on the International Standards of Supreme Audit Institutions (ISSAI).

1.1 Background of the Study

The main purpose of devolution was to bring resources and services closer to the common mwananchi. Even though there is a push by legislators to increase budgetary allocation to the counties, not much has been achieved in most counties to correspond with the allocations. Cases of corruption have been on the rise denying the common mwananchi the benefit that is to be derived from efficient and prudent use of public resources. Poor accountability and transparency in the management of public resources in the county has been the major reasons highlighted in most audits conducted in government institutions. Even though there are efforts through parliamentary committees to put county executives to task to explain the use of these resources, the process has been rather slow and there is lack of goodwill hence most of the recommendations of the Auditor General are not implemented or where there are gross violations of financial procedures, criminal charges are not instituted. There is therefore the need to sensitize lawmakers in this case county assembly members on their duty to put the executive to check and to be able to synthesize the Auditor General's report in order to better understand the challenges facing the county so as to be able to come up with legislations and policies that will increase transparency and accountability of public resources.

1.2 The significance of the study

The study examines queries raised by the auditor general on the financial statements of Busia county government. The report looks at the audit reports in the last three financial years from FY 2015/16 to FY 2017/18. This study seeks to increase the capacity of the CSO to analyze the audit reports of Busia County Executive and to develop a guide that can be easily understood by the end users of the audit reports.

1.3 Methodology

The study examined the Auditor General reports for the financial statements of the county government of Busia for the FY 2015/16, FY 2016/17 and FY 2017/18. Audit queries with the correspondent amounts were analyzed for the three financial years under review and comprised of queries that formed the basis of the Auditor's opinion, queries under emphasis of matter and queries under other matters. The data from the analysis was then entered in a spread sheet after which descriptive statistics and visualization were used to represent the analysis. The audit issues were classified on the basis of:

- i. Pending bills
- ii. Failure to reconcile books of accounts
- iii. No value for money
- iv. Lack of supporting documents
- v. Violation of financial regulations
- vi. Weak internal control.
- vii. Long outstanding balances.

2.0 Overall Expenditure

The total expenditure of the county government of Busia in the three financial years was as follows:

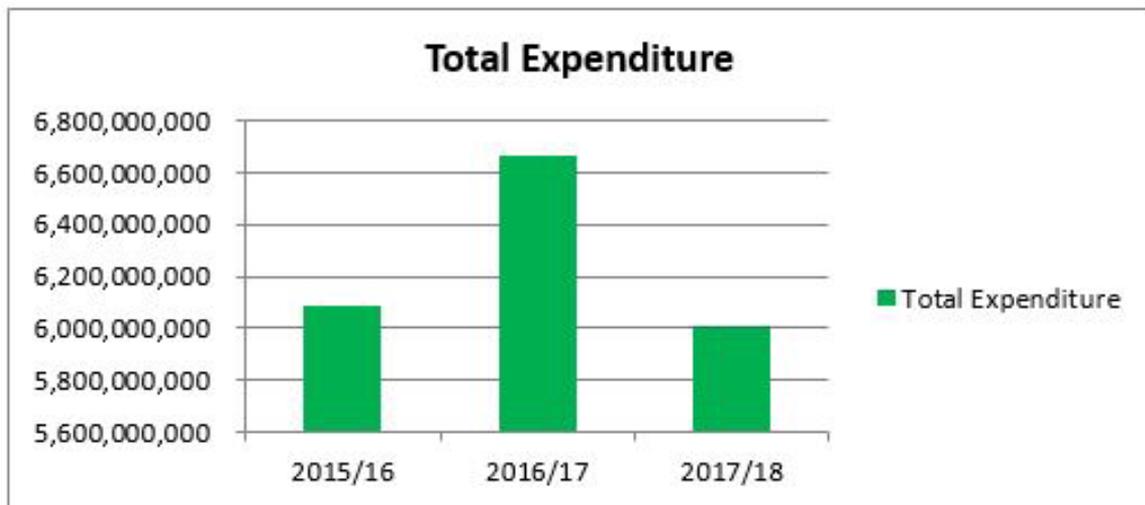
2015/16- Kshs. 6,088,951,128

2016/17- Kshs. 6,663,512,023

2017/18- Kshs. 6,004,943,286

The figure below shows the comparison of the total expenditure for the three financial years.

Figure 1: Trends in the total expenditure. FY 2015/16-2017/18



Source: The Auditor General’s report

From figure 1 above the County Executive’s absorption rates was highest in the financial year 2016/17 and lowest in the financial year 2017/18. This can be attributed to how much the county government spent on Use of goods and services, other grants and transfers and Acquisition of Assets from the statements of receipts and payments. Decreased expenditure in the 2017/18 financial expenditure is attributed on reduced expenditure on other expenses and social security benefits (Source: Auditor general’s report).

3.0 The Audit Opinion

The auditor general gave a qualified opinion on the financial expenditure of the county executive of Busia as summarized below. A qualified opinion occurs when the auditor has found some errors or anomalies but they are not pervasive (widespread or persistent). The auditor received all the information required for audit, but the audit reveals some gaps in adherence to procedures and budgets.

Table 1: Summary of the Auditor General’s opinion FY 2015/16-2017/18

Financial year	2015/16	2016/17	2017/18
Auditor’s Opinion	Qualified	Qualified	Qualified

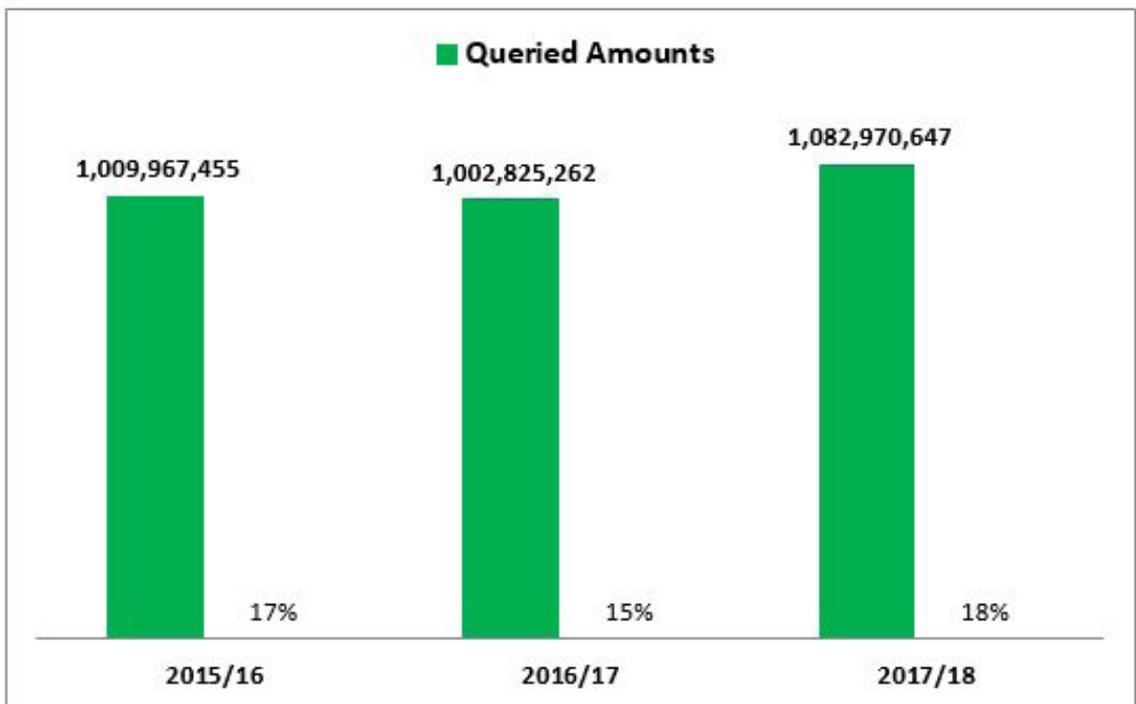
Source: Auditor General’s Report

4.0 Queried Amounts

Queried amounts refers to the amount relating to the audit queries raised by the auditor during an investigation as having been transacted unlawfully with respect to International Public Sector Accounting Standards (IPSAS).

The total queried amounts for each of the three financial years are as shown in figure 2 below. The findings shows that the financial year 2017/18 had the highest amounts of the county expenditure being queried with slightly over Ksh.1.08 billion this was followed by Kshs. 1.01 billion in the financial year 2015/16 while financial year 2016/17 had the least amount being queried with Kshs. 1.003billion under query. This represented 17%, 15% and 18% for the financial year 2015/16, 2016/17 and 2017/18 respectively.

Figure 2: Distribution of the queried amounts and as percentage of total expenditure



Source: Compilation from the auditor General’s Report-various issues

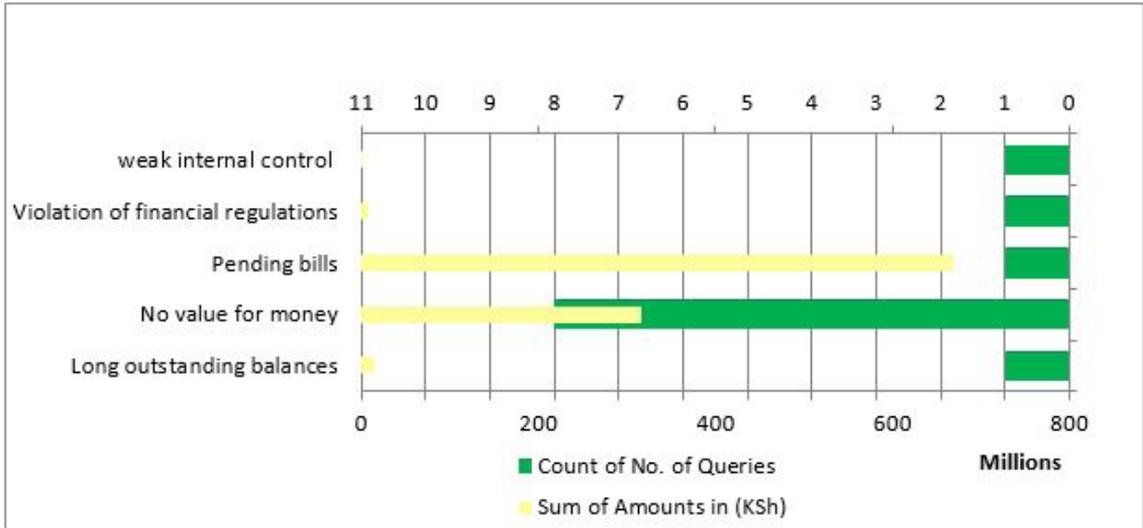
4.1 2015/16 review and findings

In the financial year 2015/16, the auditor general raised a total of 12 queries. The queries were captured and classified as tabulated below.

Classification of audit issues	Numbers of queries	Specific query	Amounts in Kshs.
Long outstanding balances	1	Unrecovered loans	13,932,252
Weak internal control system	1	Unrecovered Imprest and salary advances	2,163,651
Pending Bills	1	Pending bills payable	668,889,552
No value for money	8	<ul style="list-style-type: none"> • Incomplete structures at department of health and sanitation • Incomplete structure at department of trade and cooperate development • Afforestation project without proper feasibility studies • Department of health and sanitation • Department of Education & Vocational Training • Department of Roads, Public Works & Infrastructure • Implementation of Project on Land not owned by the County • Agriculture Development Funds 	154,263,352 27,750,888 3,995,000 114,293,686 2,499,387 6,103,573 3,980,000 4,500,000
Violation of financial regulations	1	Over expenditure by Busia county development funds	7,596,114

In the financial year 2015/16, the Auditor General raised twelve (12) audit queries on the financial expenditure by the County Executive of Busia County. Of the twelve, eight (8) were queries on no value for money on the projects executed by the County Executive Departments. These were the highest numbers of queries for a single audit issue raised in that financial year. The other queries raised by the Auditor General were on the following audit issues: weak internal control, violation of financial regulations, pending bills and long outstanding balances. From the analysis, the value on queries pertaining weak internal control was the least while that on Pending Bills was the highest. This was followed by no value for money while the rest of the queries had no substantial value.

Figure 3.1 Share distributions of queried amounts by audit issues against number of issues FY 2016/17



Source: Compilation from the Auditor General’s report- Various issues

4.2 2016/17 review and findings

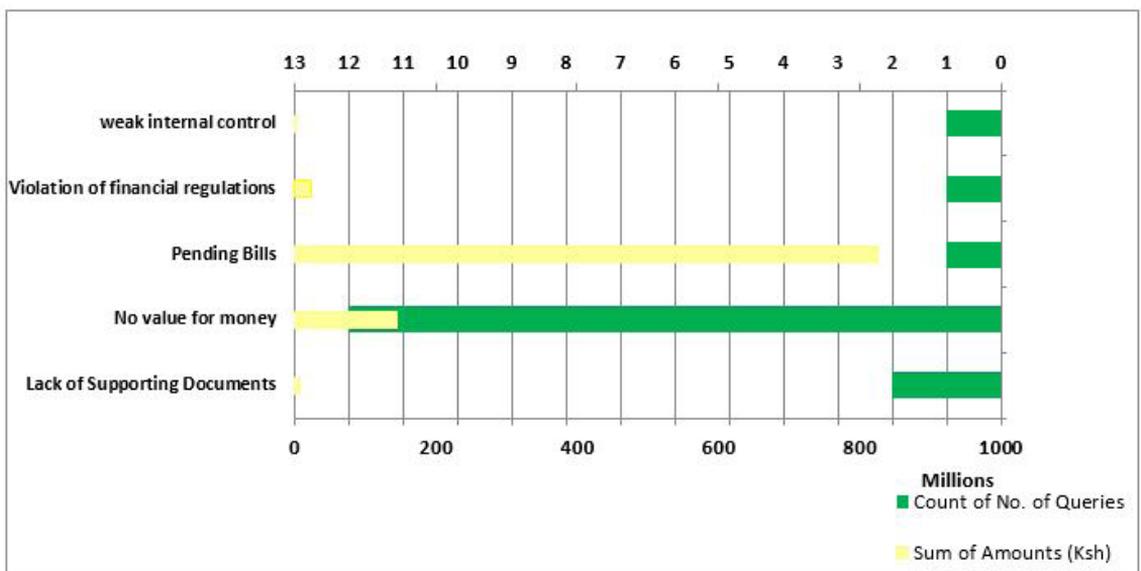
The audit report showed a total of seventeen queries being raised by the auditor general with five audit issues as tabulated below;

Classification of audit issues	Numbers of queries	Specific query	Amounts in Kshs.
Weak internal control	1	Imprest management	1,885,650
Pending Bills	1	Pending bills payable	825,278,137
Lack of Supporting Documents	2	No title deed for purchased land Unsupported expenditure on Policy development workshop	3,800,000 2,800,000
Violation of financial regulations	1	Spending at source	24,150,749
No value for money	12	<ul style="list-style-type: none"> Incomplete and stalled accident and emergency center at BCRH Incomplete construction of maternity wing at BCRH Drainage work at Odiado Rehabilitation center Drilling, developing and Test pumping water Feasibility study at Busia county international airport County Revenue collection Management system 	52,737,929 31,587,960 1,892,323 3,990,000 1,923,600 N/A

Classification of audit issues	Numbers of queries	Specific query	Amounts in Kshs.
		<ul style="list-style-type: none"> County integrated enterprise resource planning system County comprehensive Hospital Information Management System Payment for non-delivered Digital health Equipment Purchase of trailer park land Nonfunctional solar powered borehole water project Inflated installation of solar pumping Unit 	N/A 9,998,914 19,140,000 20,400,000 3,240,000

In the financial year 2016/17, there were seventeen (17) audit queries. This represented five (5) more queries as compared to the FY 2015/16. Twelve (12) queries were on audit issues with no value for money. There were two queries on lack of support documents while on the remaining audit issues i.e. weak internal control, violation of financial regulations, Pending Bills and lack of support documents each had a single query. The amounts of value for the Pending bills was the highest and had also increased as compared to the FY 2015/16. This was followed by amounts on no value for money which however, reduced as compared to FY 2015/16. The other audit issues such as weak internal control, violation of financial regulation and lack of support documents had the least amount in this financial year.

Figure 3.2 Share distributions of queried amounts by audit issues against number of issues FY 2016/17



Source: Compilation from the Auditor General's report- Various issues

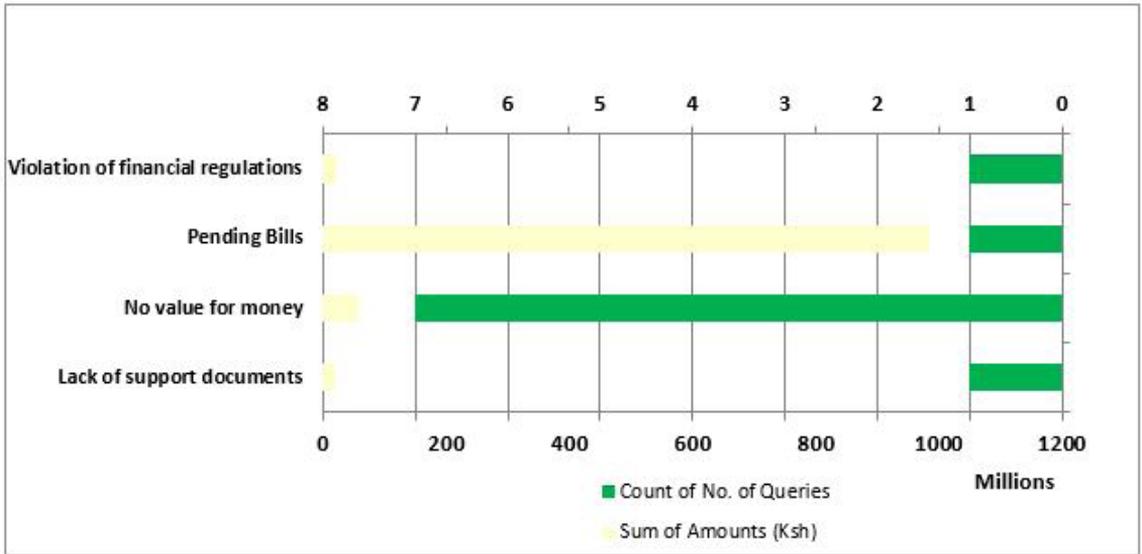
4.3 2017/18 review and findings

Based on the audit report for Busia county executive for the financial year under review, the auditor general raised ten audit queries with the auditor general querying the expenditure on audit issues and amounts as shown in the table below.

Classification of audit issues	Numbers of queries	Specific query	Amounts in Kshs.
Pending bills	1	Pending bills payable	984,406,535
Violation of financial regulations	1	Spending at source	21,418,291
Lack of support documents	1	Unsupported expenditure on construction of civic work	20,218,537
No value for money	7	<ul style="list-style-type: none"> • Construction of an accident and emergency unit at BCRH • Domestic travels and accommodation • Incomplete stalled extension of water pipelines work • Delayed construction of ECD center • Proposed construction and renovation of market centers • Development, implementation and maintenance of WBGIS • ICT policy 	17,918,264 1,196,550 11,796,200 7,467,177 3,851,088 5,987,920 8,710,085

The financial year 2017/18 had the least counts of number of queries raised by the Auditor General in the three financial years. In this financial year, there were only ten audit queries, seven of which touched on no value for money while the remaining three queries were on Pending Bills, violation of financial regulation and lack of support documents. Looking through the graph in figure 3.3 below in comparison with the other two graphs in figure 3.1 and 3.2, other than pending Bills that maintained a steady increase in terms of value of monies under query, the other queries on no value for money, lack of support documents and regulation of financial regulation showed a decrease in terms of amounts being queried as shown below.

Figure 3.3 Share distributions of queried amounts by audit issues against number of issues
FY 2017/18



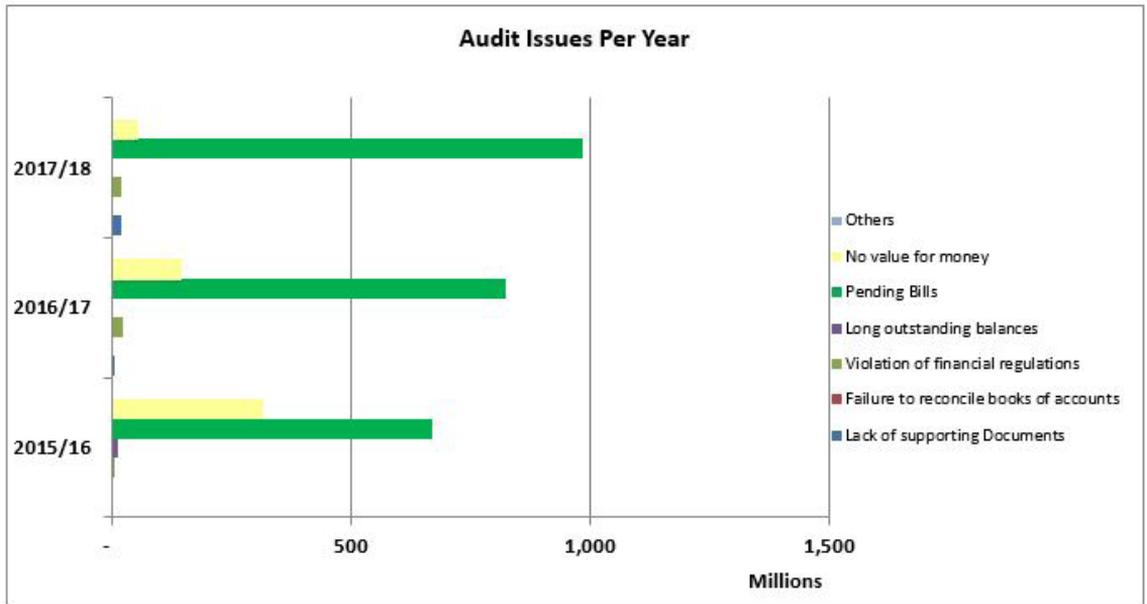
Source: Compilation from the Auditor General’s report - Various issues.

4.4 General comparison of the three financial years

From the analysis:

- Pending Bills increased in the three financial years and it was the highest in terms of amount under query. This can be attributed to accumulation of debts by the County Executive.
- The amounts under queries on projects with no value for money decreased from financial year 2015/16 to 2017/18. This shows the County Executive attempted to implement the auditor’s recommendations.
- The other audit issues on lack of support documents, weak internal control system and lack of support documents were not very recurrent in the three financial years.

Figure 4: Combined audit issues for the three financial years

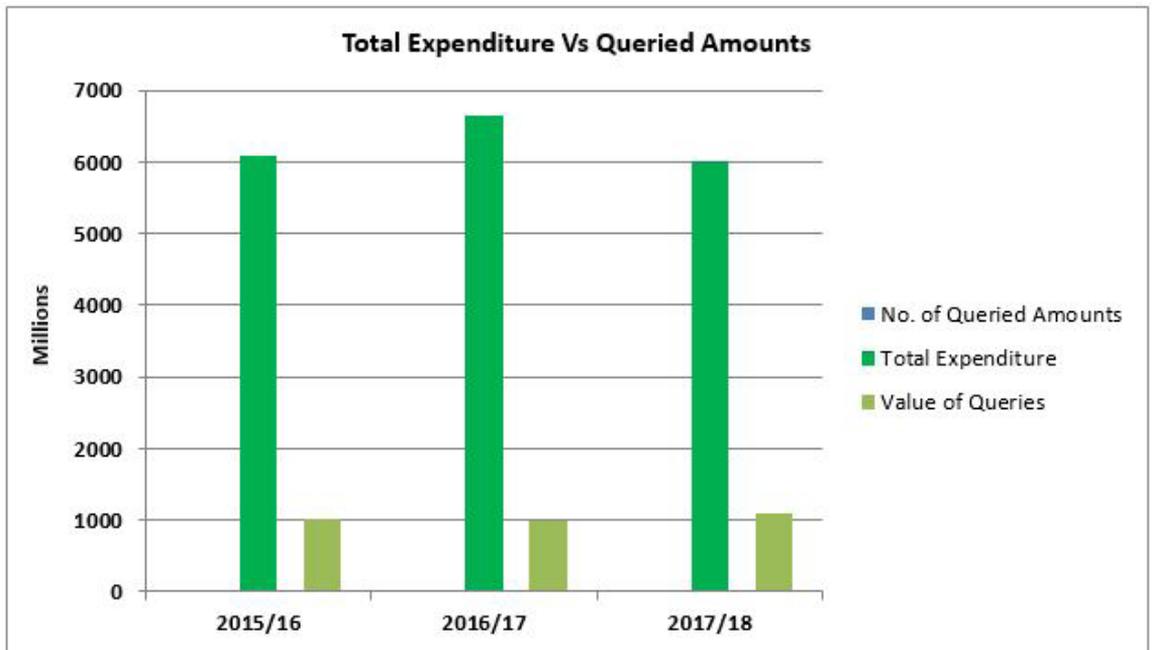


Source: Compilation from the Auditor General’s report- various issues

4.5 Analysis of Total Expenditure Vs Queried Amounts

- The financial year 2017/18 had the least total expenditure while the queried amounts were highest in relation to the other two financial years under review.
- The financial year 2016/17 had the highest expenditure but the least amount queried by the auditor general.
- The average expenditure in the three financial years was slightly more than 6 billion.
- All the three financial years had average queried amounts slightly above 1 billion.
- On average the amount queried versus total expenditure was 1/6 which can translate to 16.67% that shows a fair use of public funds.

Figure 5 Total expenditure versus queried amounts



Source: The Auditor General’s report

5.0 Recurrent Issues

The County government did not resolve the audit issues on fixed assets and liabilities from the defunct local Authorities which the Auditor General has highlighted since financial year 2015/16 to the financial year 2017/18.

The issue on pending Bills remained recurrent in the three financial years as it continuously increased across the three financial years.

Other recurrent issues include,

- In the financial year 2016/17 through to 2017/18 the Auditor General raised issue on spending at source by the county hospitals which violated section 109 (2) of the PFM Act, 2012 that was not resolved.
- In the financial year 2016/17 through to 2017/18 the Auditor raised questions on expenditure of construction of Busia County Referral Hospital and completion of an Accident and Emergency where expenditure of Kshs. 52, 737,929 was awarded to complete the construction by end of 30 June 2015 i.e. this project was to be completed in twelve months. However, by the time of audit, the construction had stalled at 70% completion even after receiving additional funding in 2017/18 FY of Kshs. 17,918,264, despite not having any documentation on the project extension.

6.0 Opportunity Cost

6.1 Financial Year 2015/16

In the financial year 2015/16, the Department of Agriculture and Animal Resources transferred a total of Kshs. 4,500,000 to the Agriculture Development Fund (ADF) as a revolving fund that was supposed to be refunded. The audit revealed that the amount had not been refunded back to the account.

Review of the CIDP 2013-17, the county government planned to have a county wide school rabbit project that would promote rabbit keeping in public schools. Given that this project was ranked second in terms of priorities, reviews of the budget documents reveal no allocation towards this project across the three years under review. This means if the Kshs. 4,500,000 were to be allocated to the project as planned, then the department could have purchased at least 1,500 rabbit breeders at Kshs. 3,000 each and distribute two rabbits per school as per the school rabbit project. This would translate to 750 public schools having rabbit projects translating to knowledge acquisition by the pupils and income generating to the schools which wasn't attained at all.

6.2 Financial year 2016/17

Expenditure on stalled project-Water project

In this final year, the Department of Water Environment, Irrigation and National Resource spend Kshs. 20,400,000 on water projects that were fitted with solar powered pumping units but were not operational and therefore there was no value for money. The CIDP 2013-17, reveals that the department of Water, Environment, Irrigation and National Resources had planned to drill Amukura Water supply that would have covered Amukura, Kotur and Kaujakito Locations, Amukura East and Central wards which would have enhanced access to clean and safe drinking water coverage and improved sanitation that would supply clean and safe water to a population of 10,000 people in Kaujakito, Kotur and Amukura Locations. However, this was not realized as this was not given consideration and the projects under this sector remained stalled with no access to clean and safe drinking water for the residents therefore no value for money in the investment.

6.3 Financial year 2017/18

Unsupported expenditure at the department of Health and sanitation

The department of health and sanitation paid Kshs. 17,918,264 to a local construction firm to finalize in the ICU center construction at the Busia County Referral Hospital. The documents were not availed for audit therefore raising concern on whether the amount was used properly or not. Consequently, if the Kshs. 17,918,264 could have been used to empower CHWs in the county through capacity building so as to realize the provisions of the CIDP plan for 2013-17, this would have reached at least 250 CHWs in Budalangi, 24 in Nambale, 4 in funyula, Teso north and South, Matayos and Butula. This would have enhanced improved access to quality health care.

7.0 Misappropriations on Youths Focused Projects

- 2015/16

Majority of youths depend on small businesses and trade as their source of livelihood. The unemployment rate in Busia County stands over 66.7% (CIDP 2018-2022). With these misappropriations in the department of Trade and cooperatives where Kshs. 27,750,888 was spent on stalled market projects in various market centers and still some are in need of more funds, thus rendering them useless as citizens are not able to receive services hence no value for money. Consequently, the Kshs. 27,750,888 would have been used to establish a Co-operative Enterprise Development funds in Busia county targeting co-operative societies which would provide loans to youths in SMSE across the county hence reducing the unemployment rate at Busia county that stand at 66.7%. (CIDP 2018-2022)

- 2016/17

The department of Gender, youth, culture and sports spent Kshs.3,800,000 to purchase a parcel of land. However, the title deed of the parcel of land was not availed for audit therefore raising question on ownership of land as it was hard to verify. Review of the CIDP 2013-17, the department of Gender, youth, culture and sport planned to construct two empowerment centers. The Kshs. 3, 800,000 would have been used in construction and equipping of one youth empowerment center in Nambale to reach out on youths at all levels in Nambale sub county and the larger Busia County.

- 2017/18

In the financial year 2017/18, tenders worth Kshs. 7,467,177 were awarded to various contractors for the construction of nine (9) ECD centers where all the projects remained incomplete and not in use therefore there was no value for money. Consequently, Kshs. 7,467,177 could have been used for installation of electricity in existing and new learning institutions to provide and extend electricity to schools particularly those in rural areas which would also result to increased learning periods. (Source CIDP 2013-17)

8.0 Recommendations

- The county government should work towards clearing its pending Bills that have been accumulating progressively since financial year 2015/16-2017/18. Having so high Pending Bills will increase the debt burdens of the county and this will impact negatively on achievement of county government development agendas as development funds will have to be diverted to payment of debts, hence compromising service delivery across sectors of the county government.
- The county government should put up functional structures to ensure that county projects that are stalled and incomplete are completed so that the residents can access services from such facilities i.e. strengthen the monitoring and evaluation framework which will ensure public involvement in project implementation processes.
- The county executive should ensure that the recurrent issues as raised by the Auditor General are addressed appropriately.

- The county government should ensure 30% expenditure set for development is achieved to enhance development in the county.
- There should be proper checks and balance system in the county so as to ensure effective and efficient use of public funds by the county government.
- Competent personnel need to in place to avert the observation made by the Auditor General such as lack of support documentation and weak control systems. This raises pertinent and integrity issues of the county work force.

9.0 Conclusion

Effective and efficient use of public funds should strictly be adhered to across all government departments and agencies responsible with handling public funds. The massive misappropriation in Busia County executive shows that there exists gaps and loopholes that is aiding loss of public funds through corrupt dealings and tendering processes. The main concerns on the audit issues raised were on value for money where money has been spent but the intended services are not offered.

The county government should therefore strengthen its internal control system so as to ensure that matters like Imprest management, lack of support documents and failure to reconcile books of accounts is solved. Despite having improved in terms of amounts under query form financial year 2016/17 through to 2017/18, a lot still need to be done in order to ensure that the county government gets an unqualified opinion.

Glossary

- Unqualified:** A clean bill of health that shows the audited accounts are free from misstatement and present a true and accurate financial state of an entity
- Qualified:** Reports and evidence presented for Audit have violations of financial reporting standards according to GAAP.
- Adverse:** The records show material misstatement that do not reflect the true and fair financial position of an entity.
- Disclaimer:** An opinion for serious financial violations that makes it impossible for the auditor to express an opinion due to lack of material evidence necessary to conduct an audit.

