

REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF MERU FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of County Assembly of Meru set out on pages 6 to 19, which comprise the statement of financial assets as at 30 June 2017, and the statement of receipts and payments, statement of cash flows and a summary statement of appropriation: recurrent and development combined for the year then ended, and other explanatory information in accordance with the provisions of Article 229 of the Constitution and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the County Assembly of Meru as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012 and the County Government Act, 2012.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, based on the procedures carried out, 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 Qualified Opinion

1.0 Cash and Cash Equivalents Balances

The Statement of Assets reflects cash and cash equivalents balance of Kshs.24 as at 30 June 2017. However, the cashbooks and the bank reconciliations reflected cash and cash equivalent balance of Kshs. 160,258 resulting in an unexplained and unreconciled variance of Kshs.160,234 as at 30 June 2017 as follows:

Description	Balance as per Financial statements (Kshs)	Balance as per cashbook (Kshs)	Variance (Kshs)
Central Bank of Kenya Recurrent 1000194677	24	3,895	3,871

Equity Bank Account number 0140261449618	0	156,363	156,363
	24	160,258	160,234

Further, the audited 2015/2016 financial statements reflected a cash and cash equivalents balance of Kshs.49,693,627 as at 30 June 2016. However, this balance was not brought forward to the year under review in the cashflow statement nor has its utilization been explained in the financial statements. In addition, the Revolving Fund account had a balance of Kshs.1,995,645 which has been omitted in the cash and cash equivalents balance as at 30 June 2017.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.24 as at 30 June 2017 cannot be confirmed.

2.0 Accuracy and Completeness of the Financial Statements

The financial statements reflects a balance of Kshs. 204,394,039 as at 30 June 2017 under seven (7) items while the related supporting ledgers reflected a balance of Kshs. 176,483,877 resulting into an unexplained and unreconciled overstatement of the financial statements by Kshs. 27,910,162 as follows:

Component	Financial Statements (Kshs.)	Ledger (Kshs.)	Variance (Kshs.)
Domestic & Subsistence	155,278,307	135,278,307	20,000,000
Other Operating Expenses	41,757,300	36,895,784	4,861,516
Routine Maintenance- Vehicle and Other Assets	2,553,296	1,114,060	1,439,236
Routine Maintenance- Vehicle	283,900	345,700	(61,800)
Purchase of office Furniture and General Equipment	1,619,526	1,559,650	59,876
Purchase of ICT Equipment	1,277,500	1,290,376	(12,876)
Overhaul and Refurbishment of Chamber	1,624,210	-	1,624,210
	204,394,039	176,483,877	27,910,162

In view of the foregoing, the accuracy and completeness of the financial statements as at 30 June 2017 cannot be confirmed.

3.0 Nugatory Contributions

During the financial year under review the County Assembly of Meru paid Kshs. 3,000,000 as membership fees, dues and subscriptions to professional and trade bodies, The expenditure included Kshs.2,700,000 paid in respect to annual subscription to the County Assemblies Forum (CAF). However, documentary

evidence has been provided to support the receipt of the Kshs. 2,700,000 by the County Assemblies Forum (CAF), the specific activities funded and the basis for such payments.

In the circumstances, it has not been possible to confirm the propriety of the payments totaling Kshs.2,700,000 made to the CAF during the year under review. payments including whether the expenditure was a proper charge to public funds as at 30 June 2017.

4.0 Irregular Excess and Unbudgeted for expenditure

Note 4 to the financial statements reflects other operating expenses of Kshs. 41,757,300 as at 30 June 2017 which include Kshs.1,317,453 in respect to reimbursement of medical expenses incurred by Member of the County Assembly in 2013 before operationalization of the medical scheme. However, the payment was not reflected as a pending bill in the previous years and further, was not budgeted for in the year under review contrary to Section 154 (2) of the Public Finance Management Act, 2012.

In the circumstances, the County Assembly of Meru breached the law and therefore the excess expenditure of Kshs.1,317,453 is irregular. .

5.0 Unsupported Ward Office Expenses

During the financial year under review, the County Assembly spent Kshs. 21,444,000 on Other Operating Expenses which included unsupported standing imprests for ward offices totaling to Kshs.9,900,000. Further, no returns were filed on the expenditure including a memorandum cash book to account for the detailed use of the standing imprest contrary to Section 93 (14) of the Public Finance Management (County Government) Regulations, 2015.

In the circumstances, the propriety of the expenditure of Kshs. 9,900,000 for Ward Office Expenses as at 30 June 2017 cannot be confirmed.

6.0 Irregular Recruitment of Ward County Employees

During the financial year under review, the County Assembly of Meru spent Kshs.35,160,767 on wages for two hundred and twenty (220) ward employees. However, relevant documents including advertisements for the posts, shortlisted applicants, selection minutes and score sheets from the interviewing panel were not provided for audit. The missing records and documents would have confirmed whether the vacancies were filled competitively in line with Article 232 (1) (g), h, I of the Constitution of Kenya, 2010 and Section 65 (e) of the County Government Act, 2012.

In view of the foregoing, it has not been possible to ascertain that the expenditure of Kshs.35,160,767 on County ward employees incurred during the year under review was a proper charge to public funds.

7.0 Foreign Travel Expenditure

The financial statements and ledger for the year under review reflected foreign travel expenditure of Kshs. 52,407,411 as at 30 June 2017. However, the payment vouchers made available for audit reflected expenditure totaling Kshs.45,993,314 resulting to unaccounted for expenditure of Kshs. 6,414,097. Further, review of foreign travel expenditures totaling to Kshs. 44,947,387 reflected travels to various destinations in Singapore, UAE, China, USA and Canada. However, these travels were not supported by back-to-office reports and evidence of attendance of the conferences and seminars cited. As a result, , the impact of the foreign trips on the role of the County Assembly as envisioned in Article 185 of the Constitution cannot be confirmed.

Consequently, the propriety and value-for-money of the expenditure of Kshs. 44,947,387 incurred on foreign travel during the year under review cannot be ascertained.

8.0 Incomplete Fixed Assets Register

Annex 2 to the financial statements reflects accumulated assets totaling to Kshs.174,596,711 as at 30 June 2016 while assets worth Kshs. 4,521,236 were procured during the year under review thereby increasing the accumulated assets to Kshs. 179,117,947 as at 30 June 2017. However, the fixed assets register made available for audit reflected fixed assets stated at Kshs.244,165,620 as at 30 June 2017 resulting to an unexplained and unreconciled variance of Kshs. 65,047,673. Included, in the assets register was land and buildings stated at Kshs.71,500,000 and Kshs.137,538,920 respectively both totaling to Kshs. 209,038,920 which had not been valued and whose ownership documents were not availed for audit. In addition, the two fixed assets stated at an aggregate value of Kshs.209,038,920 were not included in the asset balances in the financial statements. Further, the assets obtained by the County Assembly from the defunct local authorities have not been included in the assets register. In addition, a Nissan Xtrail vehicle KAV 325E (12CG033A) s grounded on 24 October 2016 had not been repaired as at the time of physical verification on 9 February 2018.

In the circumstances, the accuracy, completeness and security of the County Assembly's fixed assets totaling to Kshs.179,117,947 as at 30 June 2017 cannot be confirmed.

9.0 Pending Bills

Annex 1 to the financial statements reflects pending bills balance of Kshs.10,245,916 as at 30 June 2017. However, the creditors' ledgers were not made available to ascertain the creditors' movement from Kshs. 21,658,245 as at 30 June 2016 to Kshs. 10,245,916 as at 30 June 2017. Further, local purchase orders and /or invoices and contracts were not made available for audit review to confirm the authenticity and correctness of a creditor with a balance of Kshs. 3,899,314.

As a result, the validity completeness, and existence of the pending bills balance of Kshs. 10,245,916 as at 30 June 2017 cannot be confirmed.

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

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, I confirm that there were no Key Audit Matters to report in the year under review.

Other Matter

1.1 Budgetary Control and Performance

During the Financial Year under review, the County Assembly had an approved expenditure budget of 921,209,230 comprised of Kshs.910,301,177 for the recurrent vote being 99% and Kshs.10,908,054 for development vote being 1% of the total expenditure respectively. However, the Assembly spent Kshs. 901,728,438 of the recurrent expenditure budget and Kshs. 597,904 of the development expenditure budget totaling to Kshs.902,326,342 and thus resulting to an under -expenditure of Kshs.18,882,889 as shown below:

	Budget (Kshs)	Actual (Kshs)	Under Expenditure (Kshs)	Absorption Rate
Recurrent	910,301,177	901,728,438	8,572,739	99%
Development	10,908,054	597,904	10,310,150	0.6%
Total	921,209,231	902,326,342	18,882,889	99.6%

Further, out of the Kshs. 921,209,230 approved budget for the year, the Assembly received exchequer releases of Kshs. 894,515,604 and a transfer of Kshs. 10,000,000 from the Meru County Executive both totaling to Kshs. 904,515,604 resulting to a revenue shortfall of Kshs. 16,693,627.

In the circumstances, the County residents did not receive promised and expected service equivalent to Kshs. 18,882,889 under-expenditure as at 30 June 2017.

Responsibilities of Management and Those Charged with Governance 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.

In preparing the financial statements, management is responsible for assessing the Assembly's ability to continue as a going concern/ 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 Assembly or to cease operations, or have no realistic alternative but to do so.** [BNK1]

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.

Those charged with governance are responsible for overseeing the Assembly's financial reporting process.

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.

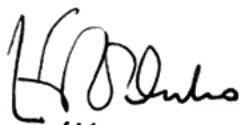
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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 Assembly's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the 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 Assembly's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Assembly to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Assembly'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 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

16 July 2018