

REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF MERU FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of County Assembly of Meru set out on pages 8 to 21, which comprise the statement of assets as at 30 June 2018, and the statement of receipts and payments, statement of cash flows and summary statements of appropriation 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 effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, the financial position of County Assembly of Meru 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 Finance Management Act, 2012 and the County Government Act, 2012.

Basis for Qualified Opinion

1.0 Accuracy of Financial Statements

1.1 Compensation of Employees

Note 3 to the financial statements reflected Kshs.396,292,667 in respect to compensation of employees as at 30 June 2018. However, the respective supporting ledgers revealed that an amount of Kshs.8,171,209 spent in respect to use of goods and services was irregularly charged to compensation of employees.

Further, the County Assembly had two payroll systems in operation - an Integrated Personnel and Payroll Database (IPPD) System and a manual payroll. An analysis of the payrolls revealed that out of the Kshs.396,292,667 expenditure on compensation of employees, Kshs.37,699,846 was paid through manual payroll which requires manual calculation of deductions, net pay and monthly and/or annual updates of the data by the human resource officers which may be prone to human error.

In the circumstances, it has not been possible to ascertain the validity and accuracy of employees compensation totaling Kshs.396,292,667.

2.0 Cash and Cash Equivalents

The statement of assets reflected a balance of Kshs.608 in respect to cash and cash equivalents as at 30 June 2018. However, entries in the cash book showed that Kshs.689,960 had been posted by error since the correct entry would have been an overdrawn balance of Kshs.801,740 resulting to an overstatement of the cash book balance by Kshs.111,780.

Further, the bank reconciliation statements for June 2018 were not availed for audit review. It was noted that the County Assembly did not constitute a board of survey for the year ended 30 June 2018 and therefore no cash survey certificates were made available for audit verification.

In addition, note 7 to the financial statements reflected nil balance for imprest account held in Equity Bank while the cash book reflected an imprest balance of Kshs.472,416.48 as at 30 June 2018 resulting to an unexplained and unreconciled variance of Kshs.472,416.48 between the two records.

In the circumstances, the accuracy and completeness of the cash and cash equivalent balance of Kshs.608 as at 30 June 2018 could not be ascertained.

3.0 Incomplete Fixed Assets Register

Annex 2 to the financial statements reflected accumulated assets totaling to Kshs.179,117,947 as at 30 June 2017 while assets worth Kshs.22,736,684 were procured during the year under review thereby increasing the accumulated assets to Kshs.201,854,631 as at 30 June 2018. However, the annex reflected assets totaling Kshs.22,736,684 resulting to an unexplained and unreconciled variance of Kshs.179,117,947.

Further, the assets register made available for audit verification reflected a balance of Kshs.286,550,236 while total assets ought to have been Kshs.201,854,631 again resulting to an unexplained and unreconciled variance of Kshs.84,695,605. In addition, the assets register reflected 930 assets worth Kshs.286,070,436 whose acquisition dates were not indicated. In addition, the assets register reflected 138 assets whose historical costs were not indicated while 5 assets worth Kshs.186,800 had no disclosure as to whether they were in usable condition or not.

Further, assets inherited from the defunct local authorities had not been included in the assets register. In addition, a Nissan Xtrail KAV 325E (12CG033A) was grounded on 24 October 2016 and was yet to be either repaired or disposed as at the time of physical verification on 20 November 2018.

In the circumstances, the accuracy, completeness and safety of the Assembly's fixed assets totaling to Kshs.22,736,684 as at 30 June 2018 could not be confirmed.

4.0 Use of Goods and Services

4.1 Domestic Travel

4.1.1 Doubtful Expenditure

Note 4 to the financial statements reflected Kshs.145,949,725 in respect to domestic travel and subsistence which included 11,228,800 for committee expenses held in a hotel in Nairobi and Kshs.1,351,400 paid to the same hotel for services rendered. However, although all the hotel services were promptly paid in cash, the respective receipts were issued months later. Further, all the payment vouchers lacked vote book certificates and the voucher numbers.

In addition, transport was paid at standardized rate of Kshs.3,000 for staff and Kshs.10,000 for Members of County Assembly (MCAs) and no approval from the Salaries and Remuneration Commission (SRC) was made available to support the payment.

Consequently, the propriety and value for money of Kshs.1,351,400 expenditure reflected in the financial statements for the year ended 30 June 2018 could not be ascertained.

4.1.2 Committees Expenses on Travel and Subsistence

An amount of Kshs.3,181,200 was paid to a committee which was studying draft proposals on attachment and internship, Transport policy, Hansard Manual and ICT Policy. However, the Kshs.3,181,200 remained unaccounted for, from the respective committee members.

Consequently, the propriety and value for money of the Kshs.3,181,200 domestic travel expenditure for the year ended 30 June 2018 could not be confirmed.

4.1.3 Unsupported Expenditure

The figure of Kshs.145,949,725 in respect of domestic travel and subsistence which included Kshs.27,010,040 whose respective supporting documents such as attendance schedules, invitation letters, work/bus tickets and back to office reports were not availed for audit verification.

In the circumstances, the regularity, accountability and value for money of the Kshs.27,010,040 expenditure for the year ended 30 June 2018 could not be confirmed.

4.2 Hospitality Supplies and Services

The financial statements reflected Kshs.63,258,253 in respect to hospitality supplies and services which included Kshs.11,319,240 paid without respective supporting attendance schedules, invitation letters, work/bus tickets and back to office reports.

In the circumstances, the regularity, accountability and value for money of the Kshs.11,319,240 expenditure for the year ended 30 June 2018 could not be confirmed.

4.3 Foreign Travel - Tel Aviv, Israel

Note 4 to the financial statements reflected Kshs.15,434,500 in respect to foreign travel and subsistence which included Kshs.501,024 paid as over expenditure to five (5) Members of County Assembly (MCAs) who had attended 2018 Agritech Conference & Exhibition in Tel Aviv, Israel and which ended 10th May 2018.

However, the MCAs extended their stay in Israel with three days as follows;

Date	Place Visited	Amount Paid (Kshs.)
11-May-18	Green 2000	167,008
12-May-18	Dairy Farms	167,008
13-May-18	Religious Sites	167,008
Total		501,024

In the circumstances, it has not been possible to confirm that the Kshs.504,024 expenditure was proper charge to public funds for the year ended 30 June 2018.

4.4 Nugatory Contributions to County Assembly Forum (CAF)

Included in the figure of Kshs.45,953,584 in respect to other operating expenses is Kshs.2,700,000 related to annual subscription to CAF. However, no documentary evidence was provided for audit review to support the expenditure, the specific activities being funded and the basis for such payments.

The expenditure therefore might not be a proper charge to public funds.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Meru County Assembly 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 judgment, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

1.0 Budget Control and Performance

During the year under review, the County Assembly had an approved budget of Kshs.1,225,942,786 comprising of Kshs.1,193,034,732 and Kshs.32,908,054 for recurrent and development respectively.

However, out of Kshs.1,225,942,786 budgeted for the year under review, the Assembly received Kshs.1,184,942,192 resulting to a shortfall in receipts of Kshs.41,000,594 or 3.34% as follows;

Revenue	Approved Budget (Kshs)	Actual (Kshs)	Under Absorption (Kshs)	%
Government Grants	1,225,942,786	1,184,942,192	41,000,594	3.34
Total income	1,225,942,786	1,184,942,192	41,000,594	3.34
Expenditure				
Compensation of Employees	397,545,390	396,292,667	1,252,723	0.32
Use of Goods & Services	371,090,058	365,912,233	5,177,825	1.40
Other Grants & Transfers	412,000,000	400,000,000	12,000,000	2.91
Acquisition of Assets	45,307,337	22,736,684	22,570,653	49.82
Total	1,225,942,785	1,184,941,584	41,001,201	3.34

Further, the summary statement of appropriation (Recurrent and Development) reflected nil balances for both final budget and the actual receipts thereby rendering the statement inaccurate. The statement further reflected budgeted expenditure and actual expenditure of Kshs.1,225,942,786 and Kshs.1,184,941,584 respectively resulting to an under expenditure of 41,001,201 or 3.34%. Failure to execute the budget fully is an indication of lack of proper planning on budget implementation. The under absorption of Kshs.41,000,594 may have impacted negatively on delivery of goods and services to the residents of Meru County.

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 on Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1.0 Human Resource

1.1 Ethnic Balancing

An analysis of ethnic composition of 74 employees of the Meru County Assembly in the year under review revealed that 71 (96%) of workforce were from the dominant ethnic community in the County contrary to Section 7(2) National Cohesion and Integration Act, 2008 which states no public establishment shall have more than two thirds of its staff from the same ethnic community.

In the circumstance, the County Assembly was in breach of the law.

1.2 Irregular Employment-Ward Employees

During the year under review, the Meru County Assembly recruited one hundred and fifty-seven (157) staff members for the Members of County Assembly (MCAs) ward offices. Scrutiny of the recruited employees revealed that the elected MCAs each got a secretary, security guard and personal assistant all totaling 145 employees while nominated MCAs each received a personal assistant all totaling 12 employees. Review of the recruitment process revealed that out of 145 positions for the employees attached to the elected members, 57 positions were not competitively engaged contrary to Article 232 (1) (g) of the Constitution of Kenya, 2010 which advocates for fair competition and merit as the basis of appointments and promotions.

In view of above, the County Assembly was in breach of the law.

2.0 Tender Evaluation Expenditure

An amount of Kshs.2,633,600 was paid as per diems to tender committee members which comprised of Kshs.149,400 and Kshs.2,484,200 in respect to a meeting held in Nairobi and five (5) meetings held in Nanyuki respectively all totaling to Kshs.2,633,600. However, there was no justification as to why the tender evaluation meetings were held outside Meru County hence the expenditure was therefore avoidable. The Kshs.2,633,600 expenditure was also contrary to Article 232.(1) (b) of the Constitution of Kenya 2010 on the values and principles of public service which include efficient, effective and economic use of resources.

In the circumstances, it has not been possible to confirm that the Kshs.2,633,600 expenditure was proper charge to public funds for the year ended 30 June 2018.

3.0 Lack of Training Needs Assessment

Note 4 to the financial statements reflected Kshs.39,334,266 in respect to training but there was no evidence that the County Assembly ever did training needs assessment hence it was not possible to ascertain how training needs were identified.

Further, included in the Kshs.39,334,266 was Kshs.13,981,150 spent on domestic travel and subsistence but charged to training expenses contrary to Section 53(1) of the Public Finance Management (County Governments) Regulations, 2015 which states an Accounting Officer of an entity may not authorize payment to be made out of funds earmarked for specific activities for purposes other than those activities.

In addition, nineteen (19) Members of County Assembly (MCAs) who were attending a seven days' induction course in Mombasa in September 2017 were irregularly paid Kshs.840,000 in per diems as they did not attend the training on the specific day(s) as follows;

No. of MCAs	Overpayment (Days)	Per Diem Rate	Over Payment (Kshs)
1	1	14,000	14,000
12	2	14,000	336,000
1	3	14,000	42,000
1	4	14,000	56,000
4	7	14,000	392,000
Total			840,000

The Kshs.840,000 was therefore not a proper charge to public funds.

In the circumstances, the propriety and value for money of the Kshs.840,000 for the year ended 30 June 2018 could not be confirmed.

4.0 Wasteful Training Expenditure

An amount of Kshs.1,009,684 was paid to two (2) Members of County Assembly as per diems and travel expenses to attend strategic communication skill for women leaders in United Arab Emirates (UAE). However, strategic communication skills courses are readily available in Kenyan universities hence the expenditure was unjustified.

In the circumstances, it has not been possible to confirm the propriety ad value for money of Kshs.1,009,684 expenditure in training for the year ended 30 June 2018.

5.0 Induction of Members of County Assembly and Staff

The County Assembly paid an amount of Kshs.12,782,150 for induction of Members of the Assembly and training of Clerk Assistants that was held in a hotel in Nairobi organized by the Centre for Parliamentary Studies & Training (CPST). However, during the year, the Assembly conducted a similar induction training for the same group in Mombasa at cost of Kshs.10,719,590 contrary to Section 162 (1), (2) (b) (i), (ii) of the Public Finance Management Act, 2012 on effective, efficient and economical use of public funds.

6.0 Office and General Supplies and Services

Note 4 to the financial statements reflected Kshs.5,344,993 in respect to office general supplies which included Kshs.731,200 in respect of newspapers procured from a supplier. However, no documents were provided for audit review on how the supplier was identified.

Further, delivery notes, invoices and distribution schedules were not made available for audit review.

7.0 Sitting Allowances

An amount of Kshs.57,824,823 spent on sitting allowances as per ledgers and committee registers /schedules. A conservatory order was issued in January 2018 to stay the execution of Gazette Notice 6518 which abolished sitting allowance for plenary sessions, reduced the rates for committee sitting allowances and increased the basic salary of Members of County Assemblies.

The County Assembly Service Board through a resolution in a meeting held on 18th April 2018 restored the Circular Ref. SRC/TS/CGOVT/3/16 of 27th November 2013 hence reinstated payment of sitting allowances for plenary sessions, increased rates for sitting allowances and reduced the basic salary for the MCAs. Records made available revealed that plenary session sitting allowance of Kshs.3,900 for Members of County Assembly (MCAs), Chairman allowances of Kshs.6,500 and sitting allowance of Kshs.3,900 were effected in January 2018.

However, the reduction in salary from Kshs.144,375 to Kshs.123,750 was not effected in January 2018. Although the salary reduction was later effected in April 2018, it was not back dated to January to correspond with the date the Assembly effected the payments for plenary sessions and this resulted to over payment of Kshs.4,214,064 as follows;

Month	Over Payment (Kshs.)
Jan-18	1,397,813
Feb-18	1,397,813
Mar-18	1,418,438
Total	4,214,064

In the circumstances, it has not been possible to confirm that the Kshs.4,214,064 expenditure on salary to MCAs was a proper charge to public funds for the year ended 30 June 2018.

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 procedures performed, except for the matter 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

1.0 Lack of Risk Management Policy and Reports

The Public Finance Management (County Governments) Regulations, 2015, Section 153 (1) (b) states that internal auditors shall have a duty to give reasonable assurance through the audit committee on the state of risk management, control and governance within the organization.

However, audit assessment of the internal controls on the risk management processes revealed that the County Assembly of Meru internal audit section did not have a risk management policy. Further, there was no documented formal risk assessment during the financial year 2017/2018. It was therefore not possible to ascertain how risks were identified, their significance estimated and likelihood of their occurrence determined.

Further, it could not be established how the risks were controlled and monitored to ensure correction/mitigation measures were effective in the absence of documentation and reports on the same.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. 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 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.

In preparing the financial statements, management is responsible for assessing the Meru County Assembly'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 either intends to liquidate the County Assembly'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 resources are applied in an effective way.

Those charged with governance are responsible for overseeing the 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

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 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 County Assembly's policies and procedures may deteriorate.

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.
- 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 County Assembly's ability to continue as a going concern or 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 Assembly to cease to continue as a going concern or 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 Assembly 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