REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF MERU FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of County Assembly of Meru set out on pages 1 to 18, which comprise the statement of financial assets and liabilities as at 30 June, 2019, statement of receipts and payments, statement of cash flows and the statement of comparison of budget and actual amounts 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, in all material respects, the financial position of the County Assembly of Meru 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 comply with the Public Finance Management Act, 2012 and the County Governments Act,2012.

Basis for Qualified Opinion

1.0 Presentation of the Financial Statements

1.1 Errors in the Financial Statements

The financial statements contain the following errors and omissions:

i. Signatories to the financial statements have not disclosed their names and registration numbers for the Institute of Certified Public Accountants of Kenya (ICPAK) as required in the reporting format prescribed by the Public Sector Accounting Standards Board (PSASB).

ii. Although Management has explained in the Significant Accounting Policies section of the financial statements how it treats pending bills, no disclosure has been provided in the financial statements of the pending bills, if any, owed by the County Assembly as at 30 June, 2019. As a result, the information on the pending bills does not conform to the reporting requirements set by the PSASB.

iii. Similarly, contrary to the International Public Sector Accounting Standard No 1 and PSASB reporting requirements, the respective financial statements are not properly titled to indicate that they reflect the financial position of the County Executive as at 30 June, 2019, and of its operations for the year then ended.

1.2 Discrepancy in the Opening Cash Balance of the Statement of Cash Flows

The statement of cash flows reflects nil balance for cash and cash equivalents at the beginning of the year. However, the statement reflects a 2017/18 closing balance of Kshs.608 resulting to an unreconciled variance of Kshs.608.

1.3 Unexplained Variance in Receipts Balance

The statement of comparison of budget and actual amounts: recurrent and development combined reflects nil balances for the final budgeted receipts and the actual receipts. However, the approved receipts budget reflects Kshs.1,019,216,683 while the statement of receipts and payments reflects actual receipts totalling Kshs.941,182,191 for the year under review. No explanation has been provided by Management for the failure of the budget balances to tally in the three (3) sets of records.

In view of these discrepancies, the financial statements for the year ended 30 June, 2019 do not conform to the IPSAS and the PSASB reporting requirements, and further, the accuracy and completeness of balances cited has not been confirmed.

2.0 Variances Between Financial Statements and Ledger and Cashbook Expenditure Balances

The statement of receipts and payments reflects Kshs.327,711,603 in respect to ten (10) expenditure items while the respective supporting ledgers reflect expenditure totalling Kshs.325,417,833 in respect of the items resulting to an unexplained variance of Kshs.2,293,770 as detailed in Appendix I of this report. Further, the financial statements reflect expenditure totalling Kshs.9,541,396 in respect of several items whose balance, however, differs with payments totalling 9,455,453 reflected in the cash book in respect of the items as shown in Appendix II. Management has not explained the variance of Kshs.4,444,097 between the two sets of records.

In the circumstances, the accuracy and completeness of these balances has not been confirmed.

3.0 Unsupported Cash and Cash Equivalents Balance

As disclosed in Note 7 to the financial statements, the statement of assets and liabilities reflects a bank balance of Kshs.183 which includes a nil balance at a local bank. However, review of the bank statement issued by the bank revealed an overdraft of Kshs.1,070,220. Contrary to Section 82(7) of the Public Finance Management Act (County Government) Regulations,2015, Management did not have authority from the County Treasury to operate the bank overdraft. In addition, the recurrent vote bank account reflects stale cheques amounting to Kshs.328,090 which have not been reversed in the cash book. As a result, the cashbook balance is understated by this amount. Further, payments in bank statement not recorded in the cashbook amounting to Kshs.160,000 have remained outstanding since November, 2013. Similarly, Kshs.38,166 in respect to outstanding payments in bank not in cash book and Kshs.250,000 outstanding receipts in bank not in cash book have been outstanding since September, 2018 and February, 2019 respectively contrary to Regulation 90(3) of the Public Finance Management (County Government) Regulations, 2015.

Further, the bank confirmation certificate, availed for audit review, reflects a balance of Kshs.10,851,892 which differs from the sum of Kshs.183 reflected in the statement of assets and liabilities in respect to cash and cash equivalents. The variance amounting to Kshs.10,851,709 between the two sets of records has not been explained by Management.

In the circumstance, the accuracy, completeness and validity of cash and cash equivalents balance of Kshs.183 reflected in the statement of assets and liabilities as at 30 June, 2019 has not been confirmed.

4.0 Unexplained Variance and Omissions in the Fixed Assets Register

Annex 1 to the financial statements reflects fixed assets with an aggregate value of Kshs.211,593,293 as at 30 June, 2019. However, the fixed assets register, availed for audit review, reflected assets valued at Kshs.286,550,236 resulting to an unexplained variance of Kshs.74,956,943 between the two sets of records. In addition, assets inherited from the defunct local authorities were not included in the assets register. Further, historical costs were not disclosed in the asset register contrary to Annex 5 of the PSASB reporting template which requires the costs to be disclosed in the summary of fixed assets register.

In the circumstances, the accuracy, completeness and valuation of the fixed assets balance totalling to Kshs.211,593,293 reflected in the financial statements has not been confirmed.

5.0 Unsupported Use of Goods and Services

The statement of receipts and payments reflects payments for use of goods and services totalling to Kshs.477,398,155, as further disclosed in Note 4 to the financial statements. Examination of sampled records indicated the following anomalies in respect to the expenditure:

i. Supporting documents for domestic travel and subsistence allowance payments totalling Kshs.27,662,500 were not availed for audit review.

ii. Payments totalling Kshs.15,046,000 were made to the Members of County Assembly for travelling outside Meru County for seminars and report writing sessions. These activities could have been carried out in the County for prudent use of funds.

iii. Out of foreign travel and subsistence imprests totalling Kshs.7,601,810 spent by the MCAs on a trip to Japan, Kshs.1,405,458 was not accounted for.

iv. Management paid the County Assembly Forum (CAF) membership subscription amounting to Kshs.3,500,000, under other operating expenses. However, the expenditure documents did not specify the activities funded and authority for the payments or acknowledgement of the funds by the CAF.

v. Fuel, oil and lubricants costing Kshs.2,995,600 were procured directly from suppliers without competitive bidding. The purchase was contrary to

Section 91(1) of the Public Procurement and Asset Disposal Act 2015, which states that open tendering shall be the preferred procurement method for procurement of goods, works and services. Further, Management did not avail for audit review the supply contracts and fuel registers showing how the supplies were consumed.

In the circumstances, the occurrence and validity as well as value for money on the fuel and lubricants supplies bought at Kshs.2,995,600 and included in the use of goods and services of Kshs.477,398,155 reflected in the statement of receipts and payments for the year ended 30 June, 2019 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of County Assembly of Meru 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 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. I have determined that there were no key audit matters to report in the year under review.

Other Matter

Incomplete Report on Prior Year Issues

The report on progress made on follow-up of auditor recommendations reflected under other Important disclosures indicates that all issues highlighted in the audit report for the previous year have since been resolved. However, records or other evidence indicating how the matters were resolved were not availed for audit review. As a result, I consider the issues as unresolved.

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 Qualified Opinion , Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections 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 of Conclusion

Non-Compliance with the One-Third Rule on Basic Salaries

The statement of receipts and payments reflects receipts totalling Kshs.941,182,191 and compensation of employees expenditure totalling Kshs.442,045,191. The wage bill, therefore, constitutes 47% of the total receipts of the County Assembly contrary to Section 25(1b) of the Public Finance Management (County Governments) Regulations, 2015 which prescribes that the ratio should not exceed 35%.

In the circumstances, the Management is in breach of the law.

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 Qualified Opinion, Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources and Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, I confirm that, nothing else 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 Report

As in the previous year, Management did not provide evidence that it had put in place a risk management policy to support robust operations as prescribed in Regulation 158(1) of the Public Finance Management (County Governments) Regulations, 2015.

In addition, no formal risk assessment reports on the operations of the County Assembly were published by Management during the year under review.

It was therefore not possible to confirm how risks to the operations of the County Assembly were identified, their significance estimated and likelihood of their occurrence determined, and the measures established to contain their possible effects.

2.0 Lack of Internal Audit Charter

Review of the interim report of the Internal Audit Committee for the period 1 July, 2018 to 31 December, 2018 revealed that although an Internal Audit Charter had been prepared, it had not been approved by the Management.
In the circumstances, the County Assembly's internal audit function may not been effective.

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 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 Management is aware of intention to dissolve the County Assembly 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 financial reporting process, reviewing the effectiveness of how the County Assembly 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 the 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 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 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 County Assembly to cease to continue sustaining 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 communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

Nancy Gathungu
AUDITOR-GENERAL

Nairobi

11 February, 2021

Appendices

Appendix I : Variance Between Financial Statements and Ledger Balances

No.	Component	Financial Statements Balance (Kshs)	Ledger Balance (Kshs)	Variance (Kshs)
1	Basic wages of Temporary Employees	42,341,055	42,735,898	(394,843)
2	Pension and other Social Security Contributions	51,832,724	51,892,504	(59,780)
3	Printing, Advertising and Information Supplies and Services	8,699,999	8,627,827	72,172
4	Hospitality Supplies and Services	71,424,261	71,426,449	(2,188)
5	Specialized Materials and Services	610,350	609,349	1,001
6	Office and General Supplies and Services	5,427,799	5,770,436	(342,637)
7	Routine Maintenance-Vehicles and Transport Equipment's	2,999,999	2,955,262	44,737
8	Routine Maintenance-other Assets	571,280	597,971	(26,691)
9	Other Operating Expenses	54,295,799	51,295,799	3,000,000
10	Equity bank – MCAs Mortgage Account	89,508,337	89,506,338	1,999

Appendix II: Variance between the Financial Statements and Cash Book

Component	Note	Financial statements figure (Kshs)	Cashbook figure (Kshs)	Variance Kshs.
Utilities, Supplies and Services	4	2,430,000	1,949,569	480,431
Communication, Supplies and Services	4	2,929,584	2,515,509	414,075
Specialized Materials and Services	4	610,350	383,908	226,442
Routine maintenance Motor Vehicle and Transport Equipment	4	2,999,999	2,278,236	721,763
Routine maintenance - Other Assets	4	571,280	148,971	422,309
Cash and Cash Equivalents	7	183	2,179,260	2,179,077