

# **REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF MURANGA FOR THE YEAR ENDED 30 JUNE 2017**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of Muranga County Assembly set out on pages 1 to 43 which comprise the statement of financial assets and liabilities as at 30 June 2017, and the statement of receipts and payments, statement of cash flows and 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 Muranga County Assembly 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.

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 section of my report, based on the audit procedures performed, 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 Compensation of Employees**

The statement of receipts and payments for the year ended 30 June 2017 reflects compensation of employees expenditure of Kshs.361,216,379. However, records maintained by the County Assembly indicated expenditure total of Kshs.358,083,088 resulting in unexplained variance of Kshs.3,133,291.

Consequently, the accuracy of the compensation of employees balance of Kshs.349,460,851 for the year ended 30 June 2017 could not be confirmed.

#### **2.0 Use of Goods and Services**

The statement of receipts and payments reflects use of goods and services figure of Kshs.232,180,284 as disclosed under note 5 to the financial statements. The following observations were however made on the said expenditure;

##### **2.1 Variance Between Notes to Financial Statements and Supporting Schedules**

A review of the ledger and schedules maintained by the county in respect of use of goods and services against balances disclosed under note 5 to the financial statement reflects difference as follows;

<b>Item</b>	<b>Supporting schedule balance Kshs.</b>	<b>Balances as per Notes to the Statements</b>	<b>Difference Kshs.</b>
Domestic Travel and Subsistence	124,630,176.65	117,252,243	7,377,933.65
Printing, Advertising and Information Supplies Services	1,892,099	3,906,376	(2,014,277)
Hospitality, Supplies and Services	14,259,202	16,108,045	(1,848,843)
Routine Maintenance	707,250	1,911,540	(1,204,290)
Other operating expenses	64,437,662	57,501,317	6,936,345

There was no reconciliation provided for the variances noted. Consequently, the validity and accuracy of the use of goods and services of Kshs.232,180,284 reflected in the statement of receipts and payments for the year ended 30 June 2017 could not be confirmed.

## **2.2 Avoidable Daily Subsistence Allowance**

Note 5 to the financial statements reflects a domestic travel and subsistence balance of Kshs.117,365,789 out of which Kshs.55,179,694 was in respect of daily subsistence allowances for various meetings held by members of County Assembly and staff in facilities outside the precincts of County Assembly premises. The management has not however provided convincing reason why such meetings could not be held within the county assembly premises to save on unnecessary domestic travel and related hire of facilities outside the County Assembly premises. The expenditure therefore appears excessive and could have been avoided.

In the circumstances, the propriety of daily subsistence allowance of Kshs.55,179,694 could not be confirmed.

## **2.3 Unsupported Domestic Travel and Subsistence**

Note 5 to the financial statements reflects a domestic travel and subsistence balance of Kshs.117,365,789. Out of this amounts, Kshs.1,961,600 was not adequately supported with relevant documentation such as invitation letters, motor vehicle work tickets, attendance registers and reports of meetings held.

Consequently, the validity and propriety of the domestic travel and subsistence expenditure of Kshs.1,961,600 could not be confirmed.

## **2.4 Subscription Fees**

Note 5 to the financial statements reflects other operating expenses figure of Kshs.56,645,627, out of which Kshs.4,700,000 was in respect to subscription fees made to the County Assemblies Forum (CAF) and the Society of Clerks at the Table (SOCAT). However, the County Assembly does not have policy guidelines or regulations governing the payment of subscriptions to societies and professional bodies. As a result, the propriety of the subscriptions of Kshs.4,700,000 in the year ended 30 June 2017 could not be confirmed.

### **3.0 Acquisition of Assets**

#### **3.1 Variance Between Statements of Receipts and Payments and Fixed Assets Register**

The statement of receipts and payments reflects Kshs.15,590,741 as having been incurred in acquisition of assets as disclosed in note 10 to the financial statements. This amount is not captured in summary of fixed assets register (annex 4) which reflects an assets' balance that has remained constant at Kshs.379,483,336 over the two year period ending 30 June 2017. The variance between the two statements has not been reconciled.

Consequently, the accuracy and completeness of the assets' balance of Kshs.379,483,336 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Muranga 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 and Other Matter sections of my report, I have determined that there are no Key Audit Matters to communicate in my report.

#### **Other Matter**

##### **1.1 Delay in Construction of Assembly Chambers**

Note 10 to the financial statements reflects acquisition of assets figure of Kshs.15,490,741. The amount represents payments made to a construction company for construction and reorganization of County Assembly Chambers. The contract for the construction of the Chambers was awarded to a local construction firm on 11 November 2014 at a contract sum of Kshs.77,484,830 as per tender reference No.MCA/024/2013/2014/1.

The contract was to run for 24 weeks and was scheduled to be completed on 25 April 2015. However, an inspection carried out in January 2018 revealed that the construction was incomplete. Further, according to information available, the contractor terminated the contract in January 2017 owing to delay in payment for certified works which stood at Kshs.33,092,879 representing about 43% level of completion as per last certificate No.3 against an elapsed contract period of 114 weeks or 475%.

## New Contract

Records maintained by the County Assembly further indicate that after the termination of the first contract, a new contract reference No. MCA/ADM/155/6/2017 was awarded on 24 October 2017 at a sum of Kshs.49,016,050.

The construction is now expected to take 26 weeks effective from the date of signing the contract. Cost Escalation.

According to available information, the initial contractor was paid value of certified works of Kshs.33,092,879 up to the time of termination of contract in January 2017 which included accumulated interest on delayed payments of Kshs.361,642. It is evident therefore that the total cost of the project increased from Kshs.77,484,830 to Kshs.82,150,510 comprising of payments made to the first contractor of Kshs.33,092,879 and new contract sum of Kshs.49,016,050.

Aside from the fact that the construction has taken over 3 years and is far from being completed, mechanisms are not in place to ensure that the contractor is promptly paid to ensure further cost escalation and unnecessary interest accumulation does not occur.

## 2.0 Budgetary Performance

### 2.1 Overall Budget Performance

During the financial year ended 30 June 2017, the County Assembly of Muranga had an approved budget of Kshs.742,415,000 comprising of recurrent vote of Kshs.672,415,000 and development vote of Kshs.70,000,000. The summary statement of appropriation recurrent and development; combined reflects overall expenditure totaling Kshs.608,887,404 equivalent to 82% absorption rate as follows:

<b>Vote</b>	<b>Approved Budget 2016/17 Kshs.</b>	<b>Actual Expenditure 2016/17 Kshs.</b>	<b>Under Absorption Kshs</b>	<b>% Actual/ Budget</b>
Recurrent	672,415,000	593,396,663	79,018,337	89
Development	70,000,000	15,490,741	54,509,259	22
<b>Total</b>	<b>742,415,000</b>	<b>608,887,404</b>	<b>133,527,596</b>	<b>82</b>

As the analysis shows, the County Assembly did not utilize Kshs.133,527,596 or 18% of its budget. This undesirable performance affects service delivery to the public.

## 2.2 Development Budget

Development Vote	2016/2017 Budget-Kshs.	2016/2017 Actual Expenditure-Kshs.	Under absorption-Kshs	% Under-absorption
Refurbishment of non-residential buildings	70,000,000	15,490,741	54,509,259	78

The analysis also indicates that development funds were not fully utilized as planned resulting in an under expenditure of Kshs.54,509,259 or 78% of the budget. The underperformance implies that development projects were not implemented thus impacting negatively on service delivery to the residents of Muranga County.

## 2.3 Recurrent Budget

During the year under review, the Muranga County Assembly provided Kshs.672,415,000 for recurrent expenditure against actual expenditure of Kshs.593,396,663 resulting in under expenditure of Kshs.79,018,337 or 12% of the budget as follows:

Components	2016/2017 Budget-Kshs.	2016/2017 Actual Expenditure-Kshs.	Under absorption-Kshs.	% Under-absorption
Compensation of Employees	377,494,243	361,216,379	16,277,864	4
Utilities, supplies and services	1,200,000	913,411	286,589	24
Communication, supplies and services	8,462,000	6,750,688	1,711,312	20
Domestic Travel and subsistence	127,800,000	117,365,789	10,434,211	8
Foreign Travel and subsistence	10,600,000	4,130,805	6,469,195	61
Printing, Advertising and information supplies	5,600,000	3,909,376	1,690,624	30
Rentals of Produced Assets	6,396,000	4,145,294	2,250,706	35
Training Expenses -	7,000,000	5,884,960	1,115,040	16
Hospitality, supplies and services	18,000,000	16,108,045	1,891,955	11
Insurance Costs	17,500,000	12,062,258	5,437,742	31
Purchase of Uniforms and Clothing - Staff	250,000	0	250,000	100
Office and General Supplies -	3,000,000	1,901,615	1,098,385	37
Routine Maintenance- motor vehicles	1,000,000	450,876	549,124	55
Other Operating Expenses	84,612,757	56,645,627	27,967,130	33

Routine Maintenance - Other assets	3,500,000	1,911,540	1,588,460	45
Bank Charges	100,000		100,000	100
<b>Total</b>	<b>672,515,000</b>	<b>593,396,663</b>	<b>79,018,337</b>	<b>12</b>

### 3.0 Risk Management

A review of risk management processes of the County Assembly revealed that the management does not conduct regular reviews on risk assessment on operational areas including risks related to Governance, Fraud considerations and Information Technology (IT).

The lack of risk assessment procedures, recommendations to check on the risks and follow up on implementation makes it impossible for management to establish that the operations are not susceptible to risks.

### 4.0 Lack of an Audit Committee

As previously reported in 2015/2016, Murang'a County Assembly has not established an audit committee. The internal auditor has been addressing internal audit reports to management instead of an audit committee, contrary to regulation 155(1) of Public Finance Management (County Government) Regulations 2015 which requires the head of internal audit to functionally report to an independent audit committee.

Failure to constitute an independent audit committee weakens the effectiveness of the internal audit department.

### 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 County Assembly's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting.

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 County 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 County 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 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 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**

**16 July 2018**