

# REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF MURANG'A FOR THE YEAR ENDED 30 JUNE 2018

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## REPORT ON THE FINANCIAL STATEMENTS

### Qualified Opinion

I have audited the accompanying financial statements of County Assembly of Murang'a set out on pages 1 to 27, which comprise the statement of financial assets and liabilities as at 30 June 2018, and the statement of receipts and payments, statement of cash flows and statements of comparison of budget and actual amounts-recurrent, development and combined 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 County Assembly of Murang'a 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.

### Basis for Qualified Opinion

#### 1. Variances Between IFMIS Balances and the Financial Statements

The financial statements for the year ended 30 June 2018 reflects various amounts and balances which are at variance with figures shown in the IFMIS report as follows:

##### 1.1. Statement of Receipts and Payments

The statement of receipts and payments totalling Kshs.501,971,452 and Kshs.518,280,523 are at variance with IFMIS report figures of Kshs.338,971,452 and Kshs.505,675,292 for receipts and payments respectively, as tabulated below:

Details	Amounts as per Financial Statements-Kshs.	Amounts as per IFMIS Report-Kshs.	Variance-Kshs.
Receipts-Exchequer Releases	501,971,452	338,971,452	163,000,000
<b>Payments</b>			
Compensation of Employees	225,538,988	210,888,182	14,650,806

Use of Goods and Services	208,706,450	206,976,321	1,730,129
Transfers to other Government entities	16,375,590	10,625,445	5,750,145
Social security Benefits	10,321,120	26,820,382	(16,499,262)
Acquisition of assets	33,946,652	47,958,000	(14,011,348)
Other Payments	23,391,723	2,406,962	20,984,761
<b>Total Payments</b>	<b>518,280,523</b>	<b>505,675,292</b>	<b>12,605,231</b>

## 1.2. Statement of Financial Assets and Liabilities

Similarly, the balances reflected in the statement of financial assets and liabilities as at 30 June 2018 do not agree with IFMIS report balances as summarized below:

Details	Amounts as per Financial Statements- Kshs.	Amounts as per IFMIS Report- Kshs.	Variance- Kshs.
Bank balances	1,778,462	37,791,022	(36,012,560)
Cash balances	0	541,159,445	(541,159,445)
Account Payables – Deposits and retentions	1,778,943	2,399,094,200	(2,397,315,257)
Fund Balance Brought Forward	16,375,590	(1,653,439,893)	1,669,815,483
Surplus/(Deficit) for the year	(16,309,071)	(166,703,840)	150,394,769

No satisfactory explanations or reconciliations have been provided for the above variances.

## 2. Subscription Fees

The statement of receipts and payments reflects expenditure of Kshs.208,706,450 on use of goods and services. As further disclosed in Note 5 to the financial statements, the expenditure includes an amount of Kshs.18,833,667 relating to other operating expenses, out of which, Kshs.3,200,000 relate to subscription fees made to the County Assemblies Forum (CAF) and the Society of Clerks at the Table (SOCAT). However, during the year under review, the County Assembly did not have policy guidelines or regulations governing payment of subscriptions to such bodies. Under the circumstances, the validity of the expenditure of Kshs. 3,200,000 on subscriptions fees cannot be confirmed.

## 3. Cash and Cash Equivalents

The statement of financial assets and liabilities as at 30 June ,2018 reflects cash and cash equivalents balance of Kshs.1,778,462 while the statement of cash flows shows cash and cash equivalents at the end of the year of Kshs. 66, 519. The resultant difference of Kshs.1,711,943 has not been reconciled or explained.

#### **4. Pending Accounts Payables (Bills)**

The financial statements of the County Assembly under Note 5.10. indicate that accounts payables (bills) amounting to Kshs.16,579,754 and Kshs.32,850,892 relating to construction of buildings and staff allowances and salaries, respectively were not settled during the year under review but were carried forward to 2018/2019. Had the bills been paid and the expenditure charged to the accounts for the year under review, the deficit of Kshs.16,309,071 reflected in the statement of receipts and payments would have increased to Kshs 65,739,717 an indication that the management entered into financial commitments for which no resources were available.

Failure to settle bills during the year to which they relate distorts the financial statements for that year and adversely affects the provisions for the subsequent year to which they have to be charged.

Further, although reference is made in Note 5.10 to the financial statements to Annex 2 as regards pending staff allowance and salaries of Kshs.32,850,892, no details have been provided for the same. As a result, the validity, completeness and accuracy of the pending staff allowance and salaries of Kshs.32,850,892 cannot be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of County Assembly of Murang'a 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 Basis for Conclusions on lawfulness and effectiveness in use of public resources and effectiveness of internal controls, risk management and governance sections of my report, I have determined that there are no key audit matters to communicate in my report.

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 and Basis for Conclusions on lawfulness and effectiveness in use of public resources and 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 public resources have not been applied lawfully and in an effective way.

## **Basis for Conclusion**

### **1. Budget Performance**

During the year under review, Murang'a County Assembly's approved expenditure budget was Kshs.746,746,528 comprising Kshs. 673,746,528 and Kshs.73,000,000 for recurrent and development votes, respectively. However, the Assembly incurred actual expenditure of Kshs.475,152,975 and Kshs.43,127,548, on recurrent and development votes, respectively. No satisfactory explanation has been provided for the under-utilization of Kshs.198,593,553 of the recurrent budget and Kshs.29,872,452 of the development budget, which apparently affected service delivery and development programmes during the year for the County Assembly

### **2. Delay in Construction of Assembly Chambers**

#### **2.1. Initial Contract**

As reported previously, the initial contract for the construction of the Assembly Chambers was awarded to a local construction firm on 11 November 2014 at a contract sum of Kshs.77,484,830, vide tender reference No. MCA/024/2013/2014/1, for a contract period of 24 weeks, with a scheduled completion date of 25 April 2015. Available information indicates that the contractor terminated the contract in January 2017 owing to delays 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 about 475%).

#### **2.2. 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 contract sum of Kshs. 49,016,050, for a contract period of 26 weeks, effective from the date of signing the contract.

However, as the time of audit in October 2018, the project had not been completed and was noted to have stalled with effect from April 2018, which the Assembly management attributed to delay in paying the contractor.

#### **2.3. Payments to the Contractors**

According to available information, the initial contractor was paid for 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.

The new contractor had been paid a net amount of Kshs.9,463,238 (less retention money and applicable taxes) as at 30 June 2018. In addition, the unpaid value of certified work stood at Kshs.16,579,754 as at 30 June 2018. Despite the fact that the project has taken over four years to be completed, no evidence has been provided of any mechanism put in place to ensure that the new contractor is promptly paid to guard against cost escalation and unnecessary interest accumulation.

It is evident also that the total cost of the project has increased from the original contract sum of Kshs.77,484,830 to Kshs.82,108,929 comprising of payments made to the first contractor of Kshs.33,092,879 and new contract sum of Kshs.49,016,050.

### **3. Unexplained Usage of Motor Vehicles**

The Salaries and Remuneration Commission (SRC), vide circular Ref. SRC/TS/CGOVT/3/61 VOL.IV (4a) of 11 December 2017, clarified that the SRC, vide Gazette Notice No.6518 of 7 July 2017, advised on the provision of official transport for the Governor, Deputy Governor, County Assembly Speaker and County Executive Committee Members. Further, the Commission, vide circular No. SRC/TS/CGOVT/3/61 dated 14 October 2013, advised that other county officers to whom an official vehicle had not been provided could utilize Government vehicles for official functions as approved by the County Government in compliance with the existing transport policy.

A review of work tickets for the Assembly motor vehicles revealed cases of unexplained usage of three County Assembly motor vehicles as follows:

#### **i. Toyota Fortuner, Registration No. 21CG 033A**

It was observed that between the months of July and November 2017, this vehicle was routinely operating between Nairobi and Murang'a. The work tickets were authorized by the Assembly Clerk and Director of Human Resource Management (DHRM).

#### **ii. Toyota RAV 4, Registration No. 21CG 054A**

During the month of December 2017, the vehicle was routinely operating between Nairobi and Murang'a and its work tickets during this month were being authorized by the DHRM. Further, during the months of February and March 2018, the vehicle was still plying the Nairobi - Murang'a route with its work tickets being authorized by the Assembly Clerk.

#### **iii. Toyota RAV 4, Registration No. 21CG 051A**

During the months of November and December 2017, and January, February and April 2018, the vehicle was routinely operating between Nairobi and Murang'a, with the work tickets being authorized by the Assembly Clerk and Director-Human Resource Management.

No plausible explanation has been provided for the seemingly improper use of these motor vehicles between Nairobi and Murang'a, and as a result, unnecessary costs were incurred on fuel, wear and tear, and routine maintenance during the year under review.

#### **4. Procurement of Motor Vehicles**

Included in the acquisition of assets expenditure of Kshs.33,946,652 as disclosed in Note 10 to the financial statements is amount of Kshs.21,074,552 in respect of purchase of vehicles and other transport equipment. The Assembly purchased three motor vehicles from M/s Toyota Kenya Ltd at total contract sum of Kshs.21,790,000. Records indicate that two Toyota RAV4 vehicles were paid for on 10 October 2017, vide payment voucher number 7181, at a total cost of Kshs. 13,832,000 while one Toyota Fortuner was paid for on 29 November 2017 at a cost of Kshs.7,958,000 vide payment voucher 7179.

According to the original budget for the Assembly, the initial approved budget for purchase of motor vehicles during 2017/2018 financial year of Kshs.25,000,000. This provision was later reduced to Kshs.21,000,000 through supplementary budget of March 2018 after the payments for the vehicles had been made, thereby occasioning an over expenditure of Kshs.790,000, for which no approval from the County Assembly was obtained.

#### **5. Avoidable Expenditure on Domestic Travel and Subsistence**

Disclosed under Note 5 to the financial statements is expenditure of Kshs.107,939,854 relating to domestic travel and subsistence. The amount includes subsistence allowances of Kshs.33,171,700 paid to Members of the County Assembly (MCAs) and staff for attending various meetings in facilities outside the precincts of the County Assembly premises. The meetings could have been conveniently held within the County Assembly premises designated for such meetings.

The Assembly has not provided satisfactory justification for holding such meetings outside it's chambers and offices so as to save on costs relating to travel, accommodation and hire of facilities. In the circumstances, the regularity and value for money on the expenditure of Kshs.38,062,300 incurred on domestic travel and subsistence cannot be confirmed.

#### **6. Benchmarking Visit to the East African Legislative Assembly (EALA)**

Note 5 also includes foreign travel and subsistence expenditure of Kshs.7,053,830, out of which an amount of Kshs.1,603,744 was paid to delegated committee members of the

County Assembly while on benchmarking visit to the East African Legislative Assembly (EALA) in Arusha, Tanzania. However, the relevance of the benchmarking trip to EALA has not been justified given that EALA has a different mandate and is of a higher level than the County Assembly. In the circumstances, the regularity and value for money on the expenditure of Kshs.1,603,744 incurred on the benchmarking trip cannot be confirmed.

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 and Basis for Conclusions on lawfulness and effectiveness in use of public resources and 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 governance were not effective.

### **Basis for Conclusion**

#### **1. Lack of Audit Committee and Ineffective Internal Audit Function**

As reported in 2016/2017, Murang'a County Assembly has not established to date an audit committee. Further, although an internal audit department exists, the only staff in the audit function had resigned during the year under review and had not been replaced as at the time of audit in October 2018. No satisfactory explanation has been provided for the failure to establish an independent audit committee and a functioning internal audit department. As a result, the operations of the Assembly are exposed to ineffective oversight and monitoring by an Internal Audit Committee and Internal Audit Function respectively, which may lead to loss of public funds.

#### **2. Risk Management**

A review of the County Assembly governance processes revealed that the Assembly does not have a documented risk management policy and do not conduct regular risk assessments on its systems and operations. This has the potential of exposing the County Assembly to possible loss of resources.

#### **3. Numbering of Payment Vouchers**

A review of the Integrated Financial Management Information System (IFMIS) reports for the year ended 30 June 2018 for the Assembly revealed that the numbering of payment vouchers in IFMIS was not sequential as there were gaps in the serialization and numbering of payment vouchers, thereby exposing the County Assembly to possible loss of public funds in case skipped payment voucher numbers were processed without detection.

This is contrary to the provision of section 104(1) of Public Finance Management (County Government Regulations), 2015 which requires that all receipts and payments vouchers of public moneys shall be properly supported by pre-numbered receipt and payment vouchers and shall be supported by the appropriate authority and documentation.

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 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, risk management and governance.

In preparing the financial statements, management is responsible for assessing the ability of the County Assembly to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends 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 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:

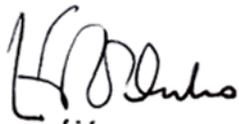
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to

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 ability of the County Assembly 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 to cease 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 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**

**15 January 2019**