

REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF MURANG'A 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 Murang'a set out on pages 1 to 28, which comprise the statement of financial assets and liabilities as at 30 June, 2019, and the statement of receipts and payments, statement of cash flows and statement 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 the Murang'a County Assembly 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. Long Outstanding Unreconciled Cash Items

The statement of financial assets and liabilities as at 30 June, 2019 reflects a bank balance amounting to Kshs.3,993,215. In addition, the bank reconciliation statement as at 30 June, 2019 reflects payment in cashbook not in bank statement and payments in bank statement not in cashbook amounting to Kshs.27,812,950 and Kshs.2,973,676, respectively. However, reconciling items amounting to Kshs.13,924,769 shown in the statement relate to the month of August, 2018. No explanation has been provided by Management on why they have not been acted upon to reflect the correct cash and bank balances.

In view of the anomaly, the accuracy and completeness of the cash and cash equivalents balance totalling Kshs.3,993,215 reflected in the statement of assets and liabilities as at 30 June, 2019 has not been confirmed.

2. Variances Between the Financial Statements and IFMIS Balances

The financial statements for the year ended 30 June, 2019 reflect various balances which, however, differ with identical account balances reflected in the Integrated Financial Management Information System (IFMIS) report for the year. No reconciliations have been provided for the variances shown in the attached Appendix.

In view of the discrepancies, I am unable to confirm the accuracy and completeness of the financial statements.

3. Failure to Disclose Progress Made in Resolving Previous Year Issues

Management has not included in the financial statements information on progress on follow up of auditor`s recommendations on the audit for the previous year.

As a result, the annual reports and financial statements do not comply with the reporting guidelines prescribed by the Public Sector Accounting Standards Board (PSASB).

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Murang'a County Assembly 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 are no key audit matters to communicate in my report.

Other Matter

1. Budget Performance

During the year under review, the approved budget for Murang'a County Assembly was Kshs.836,381,818 comprised of Kshs.786,381,818 and Kshs.50,000,000 for recurrent and development votes, respectively. However, the County Assembly incurred expenditure totalling Kshs.595,140,317 and Kshs.22,812,724 on recurrent and development votes, respectively resulting in under-expenditure of Kshs.191,241,501 on the recurrent budget and Kshs.17,812,724 on the development budget. The deficits were equivalent to 23% and 36% of the respective budgets.

In view of the failure to utilize the whole of its operational and development budgets, the County Assembly did not realize all its targeted outputs for the year and therefore was not able to provide services to the residents of the County as required.

2. Pending Accounts Payables (Bills)

Note 2.10 - Other Disclosures - to the financial statements, reflects accounts payables (bills) amounting to Kshs.14,203,325 incurred on projects for construction of buildings. Had the bills been paid and the expenditure charged to the accounts for the year under review, the surplus of Kshs.140,316 reflected in the statement of receipts and payments for the year would have been reduced to a deficit of Kshs.14,063,009. This indicates that Management entered into financial commitments without sufficient resources to fund the expenditures.

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

3. Unresolved Prior Year Issues

The audit report for the previous year highlighted various anomalies in respect to the accuracy and completeness of the financial statements, lawfulness and effectiveness in use of public resources and effectiveness of internal controls and risk management systems. As previously mentioned, Management has not disclosed the progress made in resolving the issues and these are, therefore, considered 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 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. Irregular Payment of Sitting Allowances to Members of County Assembly

Included in domestic travel and subsistence expenditure totalling Kshs.141,313,599 are sitting allowances totalling Kshs.4,204,200 paid to Members of the County Assembly (MCAs) for, reportedly, attending plenary sessions or committee meetings in venues away from the County Assembly Building. However, a review of records and attendance registers for the meetings revealed that MCAs paid allowances totalling Kshs.517,400 attended two or more separate meetings held on the same day, or concurrently. Management has not explained the multiple and concurrent payments of sitting allowances.

In view of the anomaly, it is not possible to confirm that the allowance payments totalling Kshs.517,400 made to the MCAs were a proper charge to public funds.

2. Delay in Construction of County Assembly Chambers

As reported previously, the original contract for construction of the County Assembly Chambers was awarded to a local construction firm on 11 November, 2014 at a contract sum of Kshs.77,484,830. The works were scheduled for completion after 24 weeks in April 2015. Available information indicates that the contractor terminated the contract in January, 2017 owing to delayed payment for certified works valued at Kshs.33,092,879. At the time, the project completion rate was 43% and time lapse at 114 weeks, equivalent to 475% of the contract period.

The records further indicated that after the original contract was terminated, a new contract was awarded on 24 October, 2017 at a contract sum of Kshs.49,016,050, for a contract period of 26 weeks. However, at the time of audit in October, 2019, the project had not been completed, nearly eighteen months after the lapse of the new contract period and more than five years after the project commenced.

The original contractor was paid Kshs.33,092,879 for certified works done up to the point of termination of his contract in January, 2017. The payments included accumulated interest on delayed payments amounting to Kshs.361,642. Following the appointment of the new contractor, the total cost of the project rose by Kshs.4,624,099 from the original contract sum of Kshs.77,484,830 to Kshs.82,108,929. The new cost entailed payments made to the first contractor totalling Kshs.33,092,879 and the new contract sum of Kshs.49,016,050.

As a result of the delay in completion of the project, value for money on the expenditure incurred on the incomplete project has not been realized more than five years after its expected completion date. Further, there is no reliable indicator that the project will be completed soon.

3. Subscription Fees Paid Without Guiding Policy

Expenditure records indicated that during the year under review, Management paid Kshs.2,800,000 in subscription fees to the County Assemblies Forum (CAF) and the Society of Clerks at the Table (SOCATT). However, at the time the payments were made, the County Assembly had not developed policies and guidelines for payment of subscriptions to such bodies.

In the circumstance, the expenditure totalling Kshs.2,800,000 incurred on subscriptions was not valid.

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, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

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 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 overall governance.

In preparing the financial statements, Management is responsible for assessing the ability of the County Assembly 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 the intention to dissolve the County Assembly, or 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 County Assembly's 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 Management.
- Conclude on the appropriateness of 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 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 County Assembly 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 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

22 January, 2021

Appendix

(i) Variances between Statement of Receipts and Payments and IFMIS Ledger Balances

Details	Amounts as Per Statement of Receipts and Payments Kshs.	IFMIS Figures Kshs.	Variance Kshs.
Receipts			
Receipts-Transfers from County Treasury/Exchequer	627,000,000	677,000,000	50,000,000
Payments/Expenditure			
Compensation of Employees	282,078,630	293,228,850.9	11,150,220.9
Use of Goods and Services	271,612,408	268,996,003.5	(2,616,404.5)
Transfers to Other Government Entities	29,187,583	0	(29,187,583)
Acquisition of Assets	22,890,724	42,890,725	20,000,001
Finance cost/Interest	0	6,314,930	6,314,930

(ii) Variances between Statement of Financial Assets and Liabilities and IFMIS Report

Details	Balances as Per Statement of Financial Assets and Liabilities Kshs.	Balances as Per IFMIS Report Kshs.	Variance Kshs.
Bank Balances	3,993,215	1,321,416,499	1,317,423,284
Cash Balances	0	946,190,487.95	946,190,487.85
Accounts Receivables - Outstanding Imprest	0	2,495	2,495
Accounts Payables-Deposits and Retentions	3,993,215	204,222,451	200,229,236
Fund Balance Brought Forward	140,316	(623,649,476)	(623,789,792)