

REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF MERU FOR THE YEAR ENDED 30 JUNE, 2020

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 21, which comprise the statement of assets and liabilities as at 30 June, 2020 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 the County Assembly of Meru as at 30 June, 2020, 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 Inaccuracies in Cash and Cash Equivalents

The statement of financial assets and liabilities and as disclosed in Note 7 to the financial statements reflects Kshs.627 in respect of bank balances which was at variance with the cashbooks amount of Kshs.629,003 resulting to an unexplained and unreconciled variance of Kshs.628,376. Further, review of the bank reconciliation statements revealed a balance of Kshs.469,630 in respect of recurrent account and a Nil balance in respect of imprest accounts which was at variance with the certificates of balance of Kshs.1,003,188 in respect of the recurrent account and Kshs.1,954,036 in respect of the imprest account.

In addition, the bank reconciliation statement for Equity Bank account reflects Kshs.160,000 in respect to payment in bank statement not recorded in the cashbook that has remained outstanding since November, 2013. Management did not provide explanations or reconciliations on the differences.

In the circumstances, the accuracy and completeness of the Kshs.627 in respect to bank balances for the year ended 30 June, 2020 could not be ascertained.

2.0 Unsupported Domestic Travel Expenditure

The statement of financial assets and liabilities and as disclosed in Note 4 to the financial statements reflects Kshs.397,837,738 in respect to use of goods and services which includes Kshs.238,692,597 in respect to domestic travel and subsistence. Included in the domestic travel and subsistence is Kshs.9,003,600 paid to Members of County Assembly

while attending seminars and report writing workshops outside Meru County. However, supporting documents including attendance registers, work tickets and committee resolution to have the committee sittings outside the duty station were not provided for audit review.

In the circumstances, the validity of the expenditure of Kshs.9,003,600 for the year ended 30 June, 2020 could not be ascertained.

3.0 Irregular Contributions to County Assembly Forum (CAF)

The statement of financial assets and liabilities and as disclosed in Note 4 to the financial statements reflects Kshs.397,837,738 in respect of use of goods and services which includes Kshs.70,536,099 in respect to other operating expenses. Included in the other operating expenses is Kshs.3,000,000 in respect to payment for County Assembly Forum (CAF) membership subscription for 2019/2020 financial year. However, Management did not provide for audit verification basis for which the payments were made.

In the circumstances, the validity of the expenditure of Kshs.3,000,000 in respect of membership subscription to the County Assembly Forum (CAF) for the year ended 30 June, 2020 could not be confirmed.

4.0 Unaccounted for Expenditure on Hospitality Supplies and Services

The statement of financial assets and liabilities and as disclosed in Note 4 to the financial statements reflects Kshs.397,837,738 in respect to use of goods and services which include Kshs.24,906,003 in respect to hospitality supplies and services. However, expenditure of Kshs.3,081,200 was not supported by relevant documents such as invitation letters to meetings/conferences/workshops, signed attendance registers, payment vouchers, approved rates of payments, back to office reports, evidence of travel to and from the meetings, conferences and workshops venues and work tickets.

In the circumstances, the validity of the expenditure of Kshs.24,906,003 in respect to hospitality supplies and services for the year ended 30 June, 2020 could not be confirmed.

5.0 Summary Statement of Fixed Assets

Annex 4 to the financial statements reflects Kshs.259,999,239 in respect to historical cost of assets as at 30 June, 2020. However, the fixed assets register maintained by the County Assembly was not up-dated and did not include the values, acquisition dates and historical costs of the fixed assets contrary to Section 136(1) of the Public Finance Management (County Government) Regulations, 2015 which provides that an accounting Officer shall be responsible for maintaining updated register of assets under his or her control or possession as prescribed by the relevant laws.

In view of the above, the accuracy, completeness, valuation and existence of assets at historical cost of Kshs.259,999,239 as at 30 June, 2020 could not be ascertained.

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

Other Matter

Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.945,220,000 and Kshs.867,000,000 respectively resulting to a shortfall of Kshs.78,220,000 of the budget. Similarly, the County Assembly expended Kshs.866,999,373 against an approved budget of Kshs.945,220,000 resulting to an under-expenditure of Kshs.78,220,627 of the budget. The revenue deficit and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

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 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 of Conclusion

1.0 Failure to Comply with Fiscal Responsibility Principles on Wage Bill

The statement of receipts and payments and as disclosed in Note 3 to the financial statements for the year ended 30 June, 2020 reflects Kshs.463,148,635 in respect to compensation of employees while the statement of receipts and payments reflects Kshs.867,000,000 in respect to the total revenue received in the year under review. The wage bill constitutes fifty-three (53%) of the total revenue for the year ended 30 June, 2020 contrary to Section 25(1)(b) of the Public Finance Management (County Government) Regulations, 2015 which states that the wage bill shall not exceed thirty-five (35) percent of the County Government's total revenue.

In the circumstances, the County Assembly is in breach of the law.

2.0 Irregular Procurement of Fuel, Oil and Lubricants

The statement of financial assets and liabilities and as disclosed in Note 4 to the financial statements for the year ended 30 June, 2020 reflects Kshs.397,837,738 in respect to use of goods and services. The amount includes Kshs.1,543,343 in respect to expenditure on fuel, oil and lubricants which was procured directly. This was contrary to Section 91(1) of the Public Procurement and Asset Disposal Act, 2015 which provides for open tendering as the preferred procurement method for procurement of goods, works and services.

Consequently, Management was in breach of law.

3.0 Procurement of Legal Services

The statement of financial assets and liabilities and as disclosed in Note 4 to the financial statements reflects Kshs.397,837,738 in respect to use of goods and services which includes Kshs.70,536,099 in respect to other operating expenses. Included in this amount is Kshs.2,583,000 in respect to legal fees paid to two (2) law firms. However, procurement records indicating how the service providers were identified and the contract between County Assembly and the two law firms were not availed for audit review.

In the circumstances, the validity and regularity of the procurement of legal services for the year ended 30 June, 2020 could not be ascertained.

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 conclusion on effectiveness of internal controls, risk management and governance section 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

The County Assembly had not put in place risk management policy, strategies and risk register to mitigate against risk. It was, therefore, not clear how the management

manages risk exposures. This is in contravention of Regulation 158 (1)(a) and (b) of the Public Finance Management (County Governments) Regulations, 2015 which requires the Accounting Officer to ensure that the county government entity develops risk management strategies, which include fraud prevention mechanism; and the county government entity develops a system of risk management and internal control that builds robust business operations.

2.0 In-effectiveness of the Internal Audit Function

Review of records provided for audit review revealed that although the internal audit charter was in draft form, it had not been approved by the Board. Further, the audit department was not adequately facilitated as there was no clear budget line for the function.

In the circumstances, the County Assembly internal audit function may not function as required.

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 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 County Assembly of Meru's ability to continue to sustain its services, disclosing as applicable, matters related to sustainability and using the applicable basis of accounting unless Management is aware of the 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 County Assembly's financial reporting process, reviewing the effectiveness of how the Management 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 noncompliance. 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 of Meru'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 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 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.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

NAIROBI

01 October, 2021