

# REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF MURANG'A FOR THE YEAR ENDED 30 JUNE, 2020

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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 40, which comprise the statement of financial 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 Murang'a 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 Governments Act, 2012.

### Basis for Qualified Opinion

#### 1.0 Unconfirmed Balances

Examination of records for the balances reflected in the financial statements revealed anomalies in the following accounts:

##### 1.0.1 Cash and Fund Balances

Bank, Cash and Fund account balances reflected in the statement of financial assets and liabilities as at 30 June, 2020 differ with those reflected in respect to the accounts in the Integrated Financial Information System (IFMIS) ledger as summarized below:

Item	Financial Statements Balances Kshs.	Balances as per IFMIS Ledger Kshs.	Variance Kshs.
1. Bank Balances	4,886,229	0	4,886,229
2. Cash Balances	0	4,886,229.50	(4,886,229.50)
3. Fund Balance Brought Forward	0	3,993,215	(3,993,215)

No reconciliations or explanation have been provided for the variances.

##### 1.0.2 Compensation of Employees

The statement of receipts and payments reflects compensation of employees' payments totalling Kshs.260,945,725, as further disclosed in Note 4 to the financial statements. However, payroll records reflected balances totalling to 187,544,558 resulting in an aggregate difference of Kshs.73,401,167 as shown in the table below:

Item		Financial Statements (Kshs.)	Payroll (Kshs.)	Difference (Kshs.)
1.	Basic Salaries of Permanent Employees,	188,749,189	260,696,698	71,947,509
2.	Basic Wages of Temporary Employees	20,844,007	22,297,665	1,453,658
3.	Personal Allowances	51,352,530	51,352,530	-
<b>Total</b>				<b>73,401,167</b>

No satisfactory explanation was provided by Management for the variance totalling Kshs.73,401,167 and as a result, the accuracy and completeness of the compensation to employees' expenditure totalling Kshs.260,945,725 reflected in the financial statements could not be confirmed.

### 1.0.3 Foreign Travel and Subsistence

Payments totalling Kshs.35,466,801 relating to foreign travel and subsistence include subsistence allowance claims totalling Kshs.7,782,336 paid to twenty members of the County Assembly and members of staff who were reported to have attended various meetings in foreign countries. However, examination of records on the trips revealed the following anomalies:

- i. The staff and MCAs supposedly used their own resources to finance the trips and claimed for refunds thereafter. However, there were no records on authority to do so having been granted to them by the Accounting Officer.
- ii. Reports prepared by the payees upon return, if any, were not submitted for audit and as a result the outputs and results from the trips could not be confirmed.

In view of the anomalies, it was not possible to confirm that the payments totalling Kshs.7,782,336, were a proper charge to public expenditure.

### 1.0.4 Fixed Assets

Disclosed in Annex 4 to the financial statements is a summary fixed assets register that reflects assets with historical costs totalling Kshs.465,595,952.50 as at 30 June, 2020. However, title deeds and valuation reports for lands costed at Kshs.127,000,000 included therein were not provided for audit review.

Consequently, the completeness and accuracy of the fixed assets balance totalling Kshs.465,595,952.50 as at 30 June, 2020 could not be confirmed. Further, computers, furniture and other equipment did not have tag numbers to identify and track their locations and users and as a result, the risk of their misplacement or loss was high.

### **1.0.5 Pending Bills**

Disclosed under Note 7.10 to the financial statements on other disclosures, are pending bills totalling Kshs.59,939,650 relating to construction of buildings - Kshs.1,567,285, staff payables - Kshs.53,155,240 and unpaid taxes to the Kenya Revenue Authority (KRA) - Kshs.5,217,125. However, detailed analyses of pending staff payables were not provided for audit.

As a result, the accuracy, validity and completeness of the reported pending bills totalling Kshs.59,939,650 as at 30 June, 2020 could not be confirmed.

## **2.0 Misstated Expenditures**

### **2.0.1 Social Security Benefits**

The statement of receipts and payments reflects social security benefits payments totalling Kshs.14,795,463 for the year under review. However, the payment vouchers presented for audit reflected payments totalling Kshs.16,193,841, resulting in an unexplained variance of Kshs.1,398,378 and as a result, the accuracy and completeness of the payments totalling Kshs.14,795,463 could not be confirmed.

### **2.0.2 Finance Costs**

Note 11 to the financial statements reflects payments for finance costs totalling Kshs.36,027,011. The trial balance as at 30 June, indicated that the costs comprised Kshs.34,989,191 and Kshs.1,037,820 designated as “other depository corporations” and “public enterprises” respectively. However, the two expenditure classes were not in the approved budget and Chart of Accounts. Examination of the respective payment records indicated that the items related to public participation expenses and loans provided to members of the County Assembly through an existing car and mortgage facility. No explanation was provided for the incorrect classification of the payments.

In addition, payments totalling Kshs.766,422 were incorrectly charged to the finance costs item. Management did not provide a satisfactory explanation the misallocation.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of County Assembly of Murang'a 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**

### **Unresolved Prior-Year Audit Issues**

In the report of the previous year, several issues were raised under the Report on Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. Management has made efforts to resolve some of the matters while others remain unresolved, as indicated in the report on follow-up on auditor's recommendations at Note 7 of other disclosures.

The actual status of the issues shall be determined after they are deliberated upon by the Legislature.

## **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 for Conclusion**

#### **1.0 Lack of Ethnic Diversity in Staff Establishment**

Review of personnel records revealed that as at 30 June, 2020 the County Assembly had eighty-three (83) employees out of whom seventy-eight (78) or 94% were from the dominant ethnic community in the County. These included four staff recruited during the year under review.

Section 65(e) of the County Governments Act, 2012 provides that, in selecting candidates for appointment, the County Public Service Board shall consider the need to ensure that at least thirty percent of the vacant posts at entry level are filled by candidates who are not from the dominant ethnic community in the County in order to promote national unity. The County Assembly's staff establishment did not comply with the law on ethnic diversity in public sector staffing.

#### **2.0 Failure to Implement E-procurement**

Executive Order No.6 of 2015 of 7 May, 2015 required all public entities to fully implement the e-procurement processes within a period two weeks from the date of the Order. Further, Executive Order No.2 of 2018 prescribed that by the 1 of January, 2019, all public procuring entities were to carry out all their procurement activities through the E-procurement module.

However, review of the County Assembly's procurement process revealed that only Requests for Quotations and payments for items that were procured through Open Tenders were done through the E-procurement system during the year under review. All other processes were conducted manually. No satisfactory explanation was provided for the failure to adhere to the Executive Orders.

### **3.0 Irregular Payments to Society of Clerks at the Table**

Expenditure records indicated Kshs.500,000 was in the year under review paid for subscription fees to the Society of Clerks at the Table (SOCAT), which caters for affairs of County Assembly staff nation-wide. However, as similarly reported in previous years, legislation recognizing the Society as qualified to receive grants from public funds does not exist.

In the circumstance, the payment totalling Kshs.500,000 was irregular.

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 matter(s) described in the 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**

#### **Weak Oversight and Governance System**

Review of the operations of the Internal Audit Unit indicated that it was not sufficiently staffed as it had only one internal auditor. In addition the minutes of the deliberations of the Audit Committee were not made available for audit review.

In view of these weaknesses oversight and governance over the County Assembly's administrative operations was not properly established.

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 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 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 Management is aware of the intention to dissolve the County Assembly.

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 that 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 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 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 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.



**CPA Nancy Gathungu, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**08 December, 2021**