

## **REPORT OF THE AUDITOR-GENERAL ON MERU COUNTY EXECUTIVE STAFF HOUSING FUND FOR THE YEAR ENDED 30 JUNE, 2021**

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### **PREAMBLE**

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for the intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal control, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Qualified Opinion**

I have audited the accompanying financial statements of Meru County Executive Staff Housing Fund set out on pages 19 to 42, which comprise the statement of financial position as at 30 June, 2021, and the statement of financial performance, statement of changes in net assets, 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 Meru County Executive Staff Housing Fund as at 30 June, 2021, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Finance Management Act, 2012, the County Government Act, 2012 and the Meru County Executive Staff Housing Fund Regulations, 2015.

## **Basis for Qualified Opinion**

The financial statements reflect the following balances which, however, were not supported with sufficient appropriate records:

### **1.0 Revenue**

The statement of comparison of budget and actual amounts reflects Kshs.11,413,709 in respect to actual revenue while the statement of financial performance reflects interest income totalling Kshs.12,620,815 resulting to an unreconciled variance of Kshs.1,207,106.

Further, the statement of comparison of budget and actual amounts reflects Kshs.6,371,495 in respect to general expenses performance difference. However, a recast of the items included in the balance yields Kshs.6,402,957 resulting to an unexplained variance of Kshs.31,462. Further, the statement reflects Kshs.7,610,063 in respect to surplus for the period whereas casting its items yields Kshs.6,402,957 resulting to a variance of Kshs.1,207,106. In addition, the statement reflects surplus performance difference of Kshs.9,474,521 whose source has not been established.

In the circumstances, the accuracy of the statement of comparison of budget and actual amounts for the year ended 30 June, 2021 could not be confirmed.

### **2.0 General Expenses**

#### **2.1 Statement of Cash Flows**

The statement of cash flows for the year ended 30 June, 2021 reflects Kshs.4,988,234 in respect of general expenses. However, Note 2 to the financial statements reflects general expenses totalling Kshs.5,010,752 resulting to an unexplained variance totalling Kshs.22,518.

As a result, the accuracy of the statement of cash flows for the year ended 30 June, 2021 could not be confirmed.

#### **2.2 Subsistence Allowances**

The statement of financial performance reflects general expenses totalling Kshs.5,010,752, as disclosed in Note 2 to the financial statements. The balance includes subsistence allowances totalling Kshs.2,957,697 which further include Kshs.848,623 whose supporting documents comprised of imprest warrants, attendance lists, check in registers and back to office reports were, however, not provided for audit review. In

addition, the allowances were paid for activities carried outside the duty station without proper justification contrary to Section 11(vi) of the Treasury Circular No.20/2015 of 04 November, 2015 which requires Accounting Officers to ensure that all workshops and retreats with majority of the participants drawn from one duty station are held within the precincts of the duty station.

In the circumstances, the occurrence, accuracy, validity and value for money on expenses totalling Kshs.5,010,752 could not be confirmed.

### **2.3 Fund Committee Allowances**

The statement of financial performance reflects general expenses totalling Kshs.5,010,752, as disclosed in Note 2 to the financial statements. The balance includes Fund payments on Committee allowances totalling Kshs.301,000 which in turn include Kshs.236,000 whose supporting documents, including notifications of the meetings and agenda, attendance registers and signed minutes were not provided to support the expenditure.

As a result, the occurrence, accuracy, validity and value for money on the Kshs.236,000 expenditure could not be confirmed.

### **3.0 Long-Term Receivables from Exchange Transactions**

The statement of financial position reflects receivables from exchange transactions totalling Kshs.408,915,565, as further disclosed in Note 4 to the financial statements. The balance includes long term loan receivables totalling Kshs.349,734,443. Further, the balance excludes Kshs.777,254 deducted from the loan account of a former County Executive Committee Member. However, the deduction was not supported by deposits in the Housing Fund Bank Account. Further, according to documents provided for audit, the borrower was advanced a mortgage loan totalling Kshs.13,000,000 in the year 2017 which was repayable for a period of twenty (20) years. However, review of the loan account indicated that between 20 June, 2019 and 20 June, 2021, no money was remitted to the Fund for the repayment of the loan and yet the Fund's records indicated the loan reduced by Kshs.777,254 from a balance of Kshs.11,930,894 on 20 June, 2019 to a balance of Kshs.11,153,640 on 20 June, 2021.

Although Management concurred with the audit finding, the financial statements were not amended to reflect the correct amount of outstanding long-term loan receivables.

In the circumstances, the accuracy and completeness of account's balance totalling Kshs.349,734,443 as at 30 June, 2021 could not be confirmed.

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

### **Other Matter**

#### **1.0 Budgetary Control and Performance**

The statement of comparison of budget and actual amounts for the year under review reflects budgeted total expenditure totalling Kshs.11,413,709 and actual expenditure totalling Kshs.5,010,752 resulting to an under-expenditure of Kshs.6,402,957. The under-expenditure denotes loans planned for issue to staff of Meru County Executive that were, however, not disbursed.

#### **2.0 Unresolved Prior Year Matters**

The audit report for the year ended 30 June, 2020 raised several unsatisfactory issues in regard to balances reflected in the financial statements and lawfulness and effectiveness in use of resources.

However, the issues remained unresolved as at 30 June, 2021. Management has not provided reasons for the delay in resolving the issues. Further, the issues are not disclosed under the progress on follow up of auditor's recommendations section of the financial statements as required by the Public Sector Accounting Standards Board.

### **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 and Qualified Opinion 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**

##### **1.0 Irregular Long-Term Loan Receivables**

The statement of financial position reflects non-current receivables from exchange transactions totalling Kshs.349,734,443 as disclosed in Note 4(b) to the financial statements. The balance includes outstanding loans totalling Kshs.120,464,987 owed by twelve (12) former officials namely, nine (9) County Executive Committee (CECs) members, a County Secretary, a Chief of Staff and a Legal Officer. The loans were issued between 20 January, 2017 and 04 March, 2017 and were repayable in periods ranging from twelve (12) to twenty (20) years. However, the loans' repayment periods were

contrary to the Salaries and Remuneration Commission's circular reference No. SRC/CGOVT/3/61 of 30 September, 2014 which prescribes that each County Executive Committee (CEC) Member is entitled to a mortgage of Kshs.3,000,000 at an interest rate of 3% per annum repayable within the borrower's term of service. Management did not explain why the repayment period was not limited to each borrower's term of service as required by law.

In the circumstances, the Fund was in breach of the Salaries and Remuneration Commission (SRC) Circular.

## **2.0 Non-Performing Loans**

Review of records maintained by the Fund indicated eight (8) borrowers had defaulted on their loan repayments totalling Kshs.15,132,453. Even though Management indicated that legal enforcement of recoveries against three borrowers with arrears totalling Kshs.7,191,391 had been initiated, no evidence was provided to confirm the assertion. Further, no satisfactory explanation was provided why recovery measures on the non-performing loans were not taken in due time.

Failure to recover the outstanding amounts may result in loss of public funds.

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 overall 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 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 the Board of Trustees**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual 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 Fund's ability 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 terminate the Fund, 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 money is applied in an effective way.

The Board of Trustees is charged with governance are responsible for overseeing the Meru County Executive Staff Housing Fund'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 with limited assurance as to 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 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 Fund'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 Fund's ability to sustain 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 Meru County Executive Staff Housing Fund 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 Meru County Executive Staff Housing Fund 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 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**

**19 July, 2022**