

REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF MURANG'A FOR THE YEAR ENDED 30 JUNE, 2022

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 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 controls, 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 County Assembly of Murang'a set out on pages 1 to 40, which comprise of the statement of financial assets and liabilities as at 30 June, 2022, and the statement of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts - recurrent and development 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 County Assembly of Murang'a as at 30 June, 2022, 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. Variances between the Financial Statements and Integrated Financial Management System (IFMIS) Report

The statement of receipts and payments reflects Kshs.786,061,553 in respect of total payments for the year ended 30 June, 2022. However, the IFMIS report reflects total payments of Kshs.774,750,194 resulting to an unexplained and unreconciled variance of Kshs.11,311,359.

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

In the circumstances, the completeness and accuracy of total payments amounting to Kshs.786,061,553 could not be confirmed.

2. Unsupported Cash and Cash Equivalents

As reported in previous year, the statement of financial assets and liabilities reflects bank balances of Kshs.1,886,209 as disclosed in Note 13 A to the financial statements. The balance consists of bank balances of Kshs.1,654,672, Kshs.391 and Kshs.231,146 held at Central Bank of Kenya in respect of development, recurrent and deposits accounts respectively. However, these balances were not supported with bank reconciliation statements for the month of June, 2022.

In the circumstances, the completeness, accuracy and existence of cash and cash equivalents balance of Kshs.1,886,209 could not be confirmed.

3. Lack of Ownership Documents of Motor Vehicles

As disclosed in Annex 4 to the financial statements, the summary of non-current assets register reflects summary of non-current assets with historical cost balance of Kshs.464,963,366 as at 30 June, 2022. Included in the balance is transport equipment balance of Kshs.41,440,000 out of which four (4) motor vehicles with a cost of Kshs.28,600,242 were registered in the name of Murang'a County Government. Further, as reported in previous year, the ownership document for motor vehicle with registration No.21CG090A was not provided for audit.

In the circumstances, the ownership of the motor vehicles valued at Kshs.28,600,242 could not be ascertained.

4. Unsupported Hospitality Supplies and Services Expenditure

The statement of receipts and payments reflects an amount of Kshs.385,148,367 in respect of use of goods and services as disclosed in Note 5 to the financial statements. Included in the amount is Kshs.18,019,514 in respect of hospitality supplies and services out of which an amount of Kshs.17,972,558 spent on workshops was not supported with attendance registers and workshop reports.

In the circumstances, the accuracy and occurrence of the hospitality supplies and services amount of Kshs.18,019,514 could not be confirmed.

5. Unsupported Expenditure

The statement of receipts and payments reflects an amount of Kshs.385,148,367 in respect of use of goods and services as disclosed in Note 5 to the financial statements which includes an amount of Kshs.248,818,781 in respect of domestic travel and subsistence. Included in the expenditure is an amount of Kshs.786,000 spent on conference facilities which was not supported with approval of the activity, budget, work tickets and the outcome report of the conference.

Further, the domestic travel and subsistence expenditure includes an amount Kshs.358,280 paid as committee allowances for public participation on Building Bridges Initiative (BBI) Bill. However, there was no evidence of where the public participation took place, list of participants, timelines of events and the results of such meetings.

In the circumstances, the accuracy and value for money for conference facilities and committee allowances expenditure amounting to Kshs.786,000 and Kshs.358,280, respectively could not be confirmed.

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

Other Matter

1. Unresolved Prior Year Issues

In the audit report of the previous year, several paragraphs were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management had not resolved the issues nor given any explained for the failure to implement the recommendations.

2. Budgetary Control and Performance

The statement of comparison of budget and actual amounts - Recurrent and Development combined reflects final receipts budget and actual receipts on comparable basis totaling to Kshs.971,307,014 and Kshs.786,293,060, respectively, resulting to an underfunding of Kshs.185,013,954, or 19% of the final budget. Similarly, the County Assembly expended an amount of Kshs.786,061,553 against an approved budget of Kshs.971,307,014 resulting to an under-expenditure of Kshs.185,245,461 or 19% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

3. Non Settling of Pending Accounts Payables

As disclosed in Note 1 on other disclosures to the financial statements are pending bills totalling Kshs.5,893,578 which comprise of amounts not settled during the year under review carried forward to 2022/2023 financial year. 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.

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. Failure to Fully Implement E-procurement Processes

As previously reported, Executive Order No.6 of 2015 of 7 May, 2015 required all Accounting Units in National and County Government to fully implement the end to end

e-procurement processes within a period of two weeks from the date of the circular. Further, Executive Order No.2 of 2018 required that by the 1 of January, 2019, all public procuring entities to undertake all their procurements through the E-procurement module.

However, review of County Assembly of Murang'a procurement process revealed that it was manual. No explanation was given for failure to adhere to the presidential directives.

In the circumstances, Management was in breach of the law.

2. Lack of Training Needs Assessment

The statement of receipts and payment reflects an amount of Kshs.385,148,367 in respect of use of goods and services as disclosed in Note 5 to the financial statements which includes Kshs.20,748,637 in respect of training expenses paid to various institutions of learning as students' fees and allowances for trainings. However, the County Assembly did not carry out training needs assessment contrary to Part VII (396 - 397) of County Assembly Human Resource Policies and Procedures which states that; training in the County Assembly Service shall be based on Training Needs Assessment, which shall be conducted every two years. County Assembly Directorates/Departments shall prepare training projections based on Training Needs Assessment report and recommendations to guide the training committee in nominating officers for training.

In the circumstances, it was not possible to establish whether training needs assessment was done and value for money for the expenditure of Kshs.20,748,637 could not be confirmed.

3. Non-Compliance with Law on Ethnic Composition

As reported in the previous year, during the year under review, the total number of employees of the County Assembly was one thirty-three (133) out of which one twenty-five (125) or 94% of the total number were members of the dominant ethnic community in the County.

This is contrary to Section 65(e) of the County Governments Act, 2012 which states 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 for promotion of national unity.

In the circumstances, Management was in breach of the law.

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 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 County Assembly's ability to continue 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 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 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 overall 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 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 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.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

18 January, 2023