

REPORT OF THE AUDITOR-GENERAL ON MERU COUNTY EXECUTIVE FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Meru County Executive set out on pages 11 to 30, which comprise the statement of financial assets as at 30 June 2017, and the statement of receipts and payments, statement of cash flows and a summary statement of appropriation: 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 effects 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 Meru County Executive as at 30 June 2017, 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.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report and based on the procedures performed, I confirm that, nothing has come to my attention to cause me to believe that that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1.0 Cash and Cash Equivalents

1.1 Bank Balances

The statement of assets reflects cash and cash equivalents balance of Kshs.1,583,481,976 held in the County Executive's twenty-three (23) bank accounts as at 30 June, 2017. However, an unexplained and unreconciled variance of Kshs.58,247,630 was noted between the cash balance reflected in the financial statements and the balances reflected in the bank records as follows:-

Bank	Account No	Financial Statement Balance (Kshs.)	Balances as per Bank Records (Kshs.)	Variance
CBK	Development-1000170352	109,857	37,498,428	37,388,571
CBK	Recurrent-1000170368	9,583	20,868,642	20,859,059
TOTAL		119,440	58,367,070	58,247,630

Further, bank reconciliation statements for Thirteen (13) bank accounts were not prepared and cashbooks for ten (10) bank accounts were not made available for audit review.

Consequently, the propriety, accuracy and completeness of the bank balance of Kshs.1,583,481,976 as at 30 June 2017 could not be ascertained.

1.2 Cash in Hand

The financial statements reflects a cash in hand balance of Kshs.1,235,584 as at 30 June 2017. However, the board of survey report was not provided for audit scrutiny. As a result, it was not possible to confirm the correctness and accuracy of the Kshs.1,235,584 cash on hand balance as at 30 June 2017.

1.3 Undisclosed Bank Accounts

The financial statements disclosed twenty-three (23) bank accounts under Note 13A. However, three (3) bank accounts namely Meru County Hospital revenue account, Meru level 5 hospital revenue account and Meru County Agricultural Revolving Fund account numbers 1199571369, 1199196576, 01141418844302 respectively with unknown balances were not disclosed in the financial statements contrary to the Public Finance Management (County Government) Regulations, 2015.

1.4 Failure to Maintain a County Treasury Subsidiary Accounts (CTSA) Register

The County Head of Accountancy Services did not maintain a register of all County Treasury Subsidiary Accounts (CTSA) sub accounts and other bank accounts opened by County Government entities including funds accounts, related accounts and accounts for donor funded projects contrary to the Public Finance Management Regulations 2015 Section 87 (1) which requires the County Head of Accountancy Services to reconcile periodically the government bank accounts list, with the records maintained by the Central Bank of Kenya.

In the circumstances, it was not possible to determine the actual number of accounts operated by the Meru County Executive and its entities.

1.4 Irregular Payments

The Meru County Executive operated an imprest account at Kenya Commercial Bank account number 1140746480 in compliance with section 82 (1) (b) which stipulates that all County Government bank accounts shall be opened at the Central Bank of Kenya except for imprest bank accounts for petty cash. However, the Executive paid Kshs.507,972,145 from the imprest account for expenditures that were not petty cash in nature.

In view of the foregoing, the County Executive breached the law.

1.6 Illegal Bank Accounts

During the year under review, the Meru County Executive operated twenty-three (23) bank accounts made up of nineteen accounts operated in commercial banks and four (4) held at the Central Bank of Kenya. Except for the imprest account the other eighteen (18) bank accounts held with commercial banks was contrary to the Public Finance Management (County Governments) Regulations, 2015 Section 82 (1) (b) which stipulates that all County Government bank accounts shall be opened at the Central Bank of Kenya except for imprest bank accounts for petty cash. No reasons were given as to why the Meru County Executive was operating the eighteen (18) accounts in commercial banks. The County Executive during the year ended 30 June 2017 did not comply with the PFM (County Governments) Regulations, 2015.

In view of the foregoing, the accuracy and completeness of cash and cash equivalents balance of Kshs.1,583,481,976 as at 30 June 2017 could not be ascertained.

2.0 Outstanding Imprest

Records made available for audit review, revealed that as at 30 June 2017, Imprests amounting to Kshs.5,042,500 held by two officers were outstanding for more than 6 Months Contrary to Section 92 (5) of the Public Finance Management(Regulations), 2015.

Consequently, the Meru County Executive was in breach of the law and the accuracy, recovery and propriety of the imprests balance of Kshs.5,042,500 as at 30 June 2017 could not be confirmed.

3.0 Unreconciled Local Revenue

During the financial year under review, the County Executive budgeted to collect Kshs.588,236,727 from County own revenue and Kshs.185,000,000 from Hospital Facility Improvement Fund (FIF) both totaling to Kshs.773,236,727. However, only Kshs.421,839,433 and Kshs.81,948,178 was collected in relation to County's own revenue and Hospital Facility Improvement Fund (FIF) respectively both totaling to Kshs.503,787,633 resulting to a revenue shortfall of Kshs.269,449,094. Further, bank records reflected total bankings of Kshs.777,260,059 from local revenue resulting into an un-reconciled difference of Kshs.273,472,426. In addition, the County Integrated Revenue Operation Management System, E-revenue (ZIZI) and manual returns reflected collections of Kshs.447,323,961 for County own revenue and Kshs.81,948,178 for hospital FIF all totaling to Kshs.529,272,139. The disparities in the amount of local revenue collections in the three (3) records has not been explained or reconciled.

In the circumstances, it was not possible to ascertain how much local revenue the County Executive collected during the year under review and whether all the collections were accounted for appropriately.

4.0 Unspecified Loan Facility

During the financial year under review, the Meru County Executive paid Kshs.7,338,763 to Kenya Commercial Bank for short-term accommodation on 02 September 2016 through payment voucher number Sal 50 paid under account 2210101. However, the payment did not reveal the details of the short term accommodation and what it financed. The County executive did not provide the loan agreement, approval from the County Assembly as required by Section 142 (1) of the Public Finance Management Act, 2012 and loan register.

In consequence, the legality, compliance, correctness and accuracy of the interest paid, purpose of the funds and the extent of the obligation could not be ascertained as at 30 June 2017.

5.0 Irregular Emergency Fund Expenditure

During the year under review, Meru County Executive did not create an emergency fund as required by the Public Finance Management Act, 2012. The purpose of an Emergency Fund is to enable payments to be made in respect of a County when an urgent and unforeseen need for expenditure for which there is no specific legislative authority arises. However, the Meru County Executive spent Kshs.30,343,678 under Emergency Relief and Refugee Assistance.

In the circumstance the Emergency Fund expenditure of Kshs.30,343,678 as at 30 June, 2017 was irregular in the absence of emergency fund and its regulations.

6.0 Loan Interest Repayments

During the financial year under review, the Meru County Executive paid Kshs.48,917,672 to Capital SACCO Ltd being MCA interest repayments. However, a review of the payments indicated that the payment was the difference in interest of 16% being charged by the SACCO on loans taken by the Members of County Assembly and interest of 3% that could have been charged by the Assembly had it created a fund. There is no evidence of compliance with Section 196(3) and 196(4) of the Public Finance Management Act, 2012 as regards obligations and guarantees.

Under the circumstances, the expenditure of Kshs.48,917,672 was wasteful contrary to Section 210 of the Public Finance Management (County Government) Regulations, 2015 as the expenditure could have been avoided had due care and diligence been exercised by creating the Fund.

7.0 Unsupported Expenditure

7.1 Routine Maintenance – of Motor Vehicles

Included in the use of goods and services expenditure of Kshs.1,185,147,087 for the year under review was Routine Maintenance for Motor Vehicles and other transport equipment expenditure of Kshs.15,903,902. However, available records indicated that there were no pre and post inspection of motor vehicles from the Department of Transport and infrastructure for mechanical defects. Further, the Motor Vehicle work

tickets did not indicate any defects for the vehicles and tyres requisitioned and received were not recorded in the stores records.

Consequently, the propriety and validity of the expenditure on Routine Maintenance – of Motor Vehicles of Kshs.15,903,902 as at 30 June 2017 could not be confirmed.

7.2 Communication, Supplies and Services

Included in the use of goods and services balance of KShs.1,185,147,087 as at 30 June 2017 was Communication, Supplies and Services expenditure of Kshs.35,890,534 which further included an expenditure of Kshs.12,619,200 which was not supported by requisition notes, procurement documents and stores records. Included was a contract to print books of Kshs.7,097,200 entered on 14 November 2013 but Local Purchase Order was dated 18 April 2017 casting doubt on its authenticity.

As a result, the propriety and validity of the Kshs.12,619,200 expenditure as at 30 June 2017 could not be confirmed.

In view of the foregoing, the expenditure of Kshs.28,523,102 included in the Use of Goods and Services for the year ended 30 June 2017 was not a proper charge to public funds

8.0 Irregular Procurement Expenditure

8.1 Irregular Procurement of Audit Services

As reported previously, the County Executive engaged the services of an audit firm to carry out an audit of its pending bills records at a contract sum of Kshs.11, 498,703. However, Section 226(3) of the Constitution and Section 48 of the Public Audit Act, 2015 gives the mandate of auditing all government and government institutions solely to the Auditor-General.

The contract between the County Government of Meru and the consultant (KPMG) was signed on 30 September, 2015 with a contract period of 30 days and a contract price of Kshs.11,498,703. An undated and unsigned addendum to the contract referring to a discussion held on 1 February 2016 added some additional scope whose details were not made available for audit at an additional cost of Kshs.6,886, 816. According to the addendum, 50% of the contract sum of (Kshs.3,443,408) was to be paid upon the signing of the addendum while the remaining 50% of the balance (Kshs.3,443,408) was to be paid upon issuance of the draft report.

Records made available for audit indicated that Kshs.6,886,815 was paid on 03 January, 2017 to the audit firm . However, the variation cost was 60% of the original contract which was contrary to Section 139 (6) of the Public Procurement and Asset Disposal Act, 2015. The variation of this contract was done four months after signing of the initial contract, contrary to Section 139 (4) of the Public Procurement and Asset Disposal Act, 2015. The report was not made available for audit and the amount had

not been reflected as an outstanding pending bill although the payment was done under vote 4130299-Payables from Previous Financial Periods. Therefore, the payment of Kshs.6,886,815 was made contrary to the contract terms.

In view of the foregoing, the Kshs.11,498,703 and Kshs.6,886,815 pending bills expenditure both totaling to Kshs.18,385,520 was not a proper charge on public funds.

Consequently, the expenditure cannot be confirmed to have been lawful and effective.

8.2 Irregular Procurement of Works – Muramba Borehole

Meru County Executive department of Water, Environment and Natural Resources awarded a tender of Kshs.3,070,180 for the drilling of a Borehole at Muramba – St Francis of Asisi. However, documents for one bidder were not provided for audit but were instead substituted by documents for another contractor who did not bid according to the tender evaluation minutes. Consequently, the Meru County Executive was in breach of the Law and value for money for the expenditure of Kshs.3,070,180 as at 30 June 2017 could not be confirmed.

8.3 Irregular Procurement of Gas

The County Executive of Meru through the department of Health spent Kshs.1,044,000 vide payment voucher number 2656 dated 12 May 2017 for refilling one hundred and eighty 13kg cylinder gas for vaccine fridge for rural health facilities. Audit review however established that the refilling of the gas cylinders was done at Kshs.5,800 each instead of the market price of Kshs.2,000 each resulting to a total overpayment of Kshs.684,000 for the 180 cylinders. This was contrary to Section 54 of the Public Procurement and Asset Disposal Act, 2015 that requires standard goods, works and services with known market prices to be procured at prevailing market prices.

In the circumstances, the Meru County Executive was in breach of the law and the Kshs.684,000 overpayment was irregular and has to be recovered.

8.4 Irregular Construction of ECD Classrooms

During the year under review, the County Executive awarded tenders for construction of ECD classrooms at Ng'ombe Njiru and Njuki Njiru Primary Schools, construction of market roof shed at Mitunguu market at a cost of Kshs.1,275,181, Kshs.1,169,282 and Kshs.3,544,425 respectively all totaling to Kshs.5,988,888. The tenders were awarded through restricted tendering. However, the contract sums were below the minimum threshold of Kshs.4,000,000 contrary to the Public Procurement Disposal (Amendment) Regulations 2013. Further, the contractors were not registered with the County Executive as a supplier. Also provisional sums of Kshs.200,000 for construction of market roof shed at Mitunguu market were not accounted for.

In view of the foregoing, the Meru County executive was in breach of the law and the propriety for the expenditure of Kshs.5,988,888 as at 30 June 2017 could not be confirmed.

9.0 Acquisition of Assets

9.1 Non-Current Assets

During the year under review, the County Government Executive maintained a fixed assets register with a total balance of Kshs.2,034,763,447. However, the summary of Fixed Assets Register at Annex 4 of the financial statements reflected a balance of Kshs.4,755,793,9356 resulting into an unexplained and unreconciled variance of Kshs.2,721,030,488. Further, non-current assets amounting to Kshs.2,022,474,820 acquired during the year were not updated in the fixed assets register.

In view of the foregoing, the accuracy, completeness, valuation, custody and security of the fixed assets balance of Kshs.4,755,793,935 as at 30 June 2017 could not be ascertained.

9.2 Construction of Road Using Unapproved Method

The County Executive awarded a Contract of Kshs.93,903,209 for Upgrading of Route A,B,C,D, E and F (police- Flamingo- Society Stores, Basin Route and Police Station to Kwakainga Roads) in Maua town using probase technology. Out of the total contract sum, Kshs.47,528,550 had been paid as at 30 June 2017, however, Circular No. 1/2016 dated 15 June 2016 by the Ministry of Transport, Infrastructure, and Housing and Urban Development indicated that none of the proprietary products being promoted for stabilization of soils for road pavements construction has been approved for use on public roads. Further, letter ref MOTI/I/A. 31.02 Vol. I dated 3 July 2015 from the Ministry of Transport, Infrastructure, Housing and Urban Development identified specific roads for trial purposes for Probbase technology, and the above roads in Maua town were not among them. No reason was given for failure to comply with the requirements of the circulars.

As a result, it was not possible to ascertain the propriety and value for money of the expenditure of Kshs.47,528,550 as at 30 June 2017.

9.3 Motor Vehicle Insurance

The financial statements for the year under review, reflected insurance cost of Kshs.244,420,997 under Use of Goods and Services which included Kshs.43,216,620 relating to insurance of motor vehicle policies for unknown number of Motor Vehicles. However, no documents were made available to show that the service was competitively acquired in line with Section 103 (2) of the Public Procurement and Assets Disposal Act, 2015 and Section 227 of the Constitution. Further, no details of the motor vehicles being insured were made available for audit scrutiny.

Consequently, the County Executive breached the law and it was not possible to confirm that value for money was realized on the expenditure of Kshs.43,216,620 incurred on Motor Vehicle Insurance as at 30 June 2017.

9.4 Mortuary Chambers

During the year under review, Meru County Executive awarded a tender to M/S Achelis for the Supply, Installation and commissioning of ten (10) Mortuary Chambers through tender no. CGM/ONT/005/2015-2016 at a contract sum of Kshs. 64,627,781. The supplier through delivery note 472080 and other unreferenced delivery notes dated 23 September 2016 supplied the chambers to the County Government. However, during a physical verification, it was observed that out of the 10 units purchased only 7 had been installed and commissioned while 3 procured at a cost of Kshs.19,388,334 had not been installed and commissioned comprising of one supplied to Kanyakine Hospital which could not be installed as the Mortuary was still under construction and two which were part of the six units delivered to Meru Teaching and referral hospital and could not be installed as the Mortuary had a capacity to hold only four chambers. This resulted in excessive procurement contrary to Section 53 (3) of the Public Procurement and Assets Disposal Act, 2015.

In the circumstances, the County Executive breached the law and it was not possible to confirm that value for money was realized on the expenditure of Kshs.19,388,334 for the three mortuary chambers as at 30 June 2017.

9.5 Irregular Supply and Replacement of Generators

During the year under review, the County Executive awarded a tender to M/S Achelis for the Supply, Installation and commissioning of generators through tender no. CGM/ONT/004/2015-2016 at a contract cost of Kshs.18,694,427. A physical verification established that the generators were supplied, installed and commissioned as per the tender. It was also established that there were other generators previously at the Meru Teaching and Referral Hospital that were in working condition that were being replaced. However, there was no technical report made available for audit giving reasons why the generators were being replaced.

As a result, the propriety and value for money for the Kshs.18,694,427 new generators could not be established as at 30 June 2017.

9.6 Medical Equipment

During the year under review, the County Executive procured medical equipment from Buya Suppliers Limited at a cost of Kshs.2,552,000. However, physical verification established that although the items were supplied to the hospital on 23 June 2017 they were not in use and had been kept in the store. It is not clear whether there was user request and why there was excessive procurement contrary to Section 53 (3) of the Public Procurement and Assets Disposal Act, 2015.

In consequence, Meru County Executive was in breach of the law and value for money in the Kshs.2,552,000 expenditure was not realized as at 30 June 2017.

9.7 Unaccounted for Furniture Expenditure

During the financial year under review, the Meru County Executive paid Kshs.3,228,000 through payment voucher HM 010/1 dated 01 February 2017 to Saramba Construction and General Supplies Ltd being supply of Furniture for the facilities in Meru County. However, a review of the payment indicated that although the furniture was received there is no documentary evidence to show which facility received the furniture.

In the circumstances, the propriety and value for money for the Kshs.3,228,000 furniture as at 30 June 2017 could not be established.

9.8 Unspecified Advertisement

Included in the Payables from Previous Financial Period is an expenditure of Kshs.3,840,000 to a media house for live coverage and sponsorship contract for infomercials, live interview with CEC health and extra support. However, the details of the period when the service was offered and the requisition and Local Purchase order (LPO) were not made available for audit review. Further, the payment was not previously reflected as pending bill although paid through vote of Payables from Previous Financial Period.

Consequently, the propriety and validity of the expenditure of advertisement of Kshs.3,840,000 as at 30 June 2017 could not be confirmed.

9.9 Physically Challenged Equipment's and Tonners

Included in the Payables from Previous Financial Period is an expenditure of Kshs.3,922,000 and Kshs.1,970,000 for physically challenged equipment's and supply of tonners respectively totaling to Kshs.5,892,000. A review of this expenditure indicated that although the amounts were paid through account 4130299- Payables from Previous Financial Period they had not been reflected under pending bills as at 30 June 2016. Further no documents were made available on how the items were distributed and the beneficiaries.

As a result, the propriety and validity of the expenditure of Kshs.5,892,000 as at 30 June 2017 could not be confirmed.

10.0 Storage and Transportation of Relief Food

During the year under review, Meru County Executive paid for storage of relief food between October 2015 and September 2016 and transportation through issuance of an imprest of Kshs.1,369,340 to an officer to pay for the expenses. However, no records were made available to support any purchase of relief food, procurement of the service of storage and transportation and explanation why the relief food was stored for one year after purchase. Further no reasons were given for paying the suppliers cash.

Under the circumstances it was not possible to ascertain the propriety, legality and value for money of the Kshs.1,369,340 expenditure as at 30 June 2017.

11.0 Upgrading of Stadiums

11.1 Upgrading of Kinoru Stadium

As previously reported in the financial period 2015/2016, the County Executive had awarded a contract (MCG/ONT/300/2013-2014) to Newspace Creators Ltd for upgrading Kinoru Stadium to International Standards at a tender sum of Kshs.167,392,817. The contract was cancelled on 29 July 2016 after the Contractor had already been paid Kshs.121,342,573 through a letter referenced MCG/CGYSS/KS/ONT/300/2013-2014 on the basis of expiry of the contract life time although the contract was not complete. As at 30 June 2016, only Kshs.46,050,244 remained outstanding from the total contract sum. During the year under review, the County awarded a tender to complete the upgrading of the stadium comprising of Terraces offices and other Facilities-Wing A and B, Ablution block, gates and the ticketing area and Electrical works at a cost of Kshs.51,989,735, Kshs.11,526,270 and Kshs.22,797,950 respectively all totaling to KShs.86,313,955. Considering that only Kshs.46,050,244 remained unpaid in the cancelled contract price, reawarding the remaining works at Kshs.86,313,955 increased the contract price by Kshs.46,263,711. As at 30 June 2017, the contractors had been paid Kshs.45,181,630 for the three contracts which when added to the Kshs.121,342,573 paid during the cancelled contract totaled to Kshs.166,524,203 since inception for the upgrading of the stadium. A site visit revealed that the works at the stadium had been handed over to another contractor and the above three contractors were not at the site. Further In , it was not possible to confirm the works done and the whereabouts of the materials on site paid for as per the engineer's certificates.

Under the circumstances, the propriety and value for money for the Kshs.166,524,203 expenditure in respect to upgrading of Kinoru Stadium could not be ascertained as at 30 June 2017.

11.2 Upgrading of Nguthiru Stadium

During the year under review, Meru County Government spent Kshs.16,091,334 for the construction of a boundary wall at Nguthiru Stadium as per tender MCG/RT/305/2014-2015. The actual expenditure exceeded the approved budget of Kshs.15,000,000 by Kshs.1,091,334. Although the works were alleged to have been procured through restricted tendering, there was no evidence that conditions set under Section 102(1) in the Public Procurement and Assets Disposal Act, 2015 were adhered to. Further, no documents were made available on how the provisional sum of Kshs.1,700,000 included in the bill of quantities was spent.

Consequently, the propriety and value for money of the expenditure of Kshs.16,091,334 as at 30 June 2017 could not be established.

12.0 Purchase of Motor Vehicles

During the year under review, the County Executive procured twelve (12) motor vehicles as indicated below as per the respective County Government Executive Contract tenders.

Date	Particulars	Amount
15.9.2016	Purchase of 2 Ambulances	15,987,830
21/9/2016	Purchase of 2 Ambulances	15,987,830
06/06/2017	New Generation Toyota Hilux Cabin Pick	4,278,620
19/04/2017	Toyota Land Cruiser Prado	13,109,913
06/02/2017	Toyota Hilux Pick-Up Double Cabin	4,355,691
24/04/2017	Purchase of Ambulance	7,993,915
09/03/2017	Purchase of Four Suzuki's	10,000,000
Total		71,713,799

However, a review of the documents made available for audit did not reveal the motor vehicle details such as chassis numbers and engine numbers. Further, no logbooks were made available for audit verification.

In the circumstance, the propriety of the Kshs.71,713,799 expenditure as well as the ownership of the motor vehicles as at 30 June 2017 could not be ascertained.

13.0 Undistributed Bull Semen

During the year under review, the County Government Executive of Meru; Department of Agriculture, Livestock and Fisheries through Purchase Order no. 307 dated 23 November 2016 contracted The University of Nairobi to Import and Supply Bull Semen from Sao Paulo, Brazil at a contract sum of Kshs.15,525,000 and the contractor was paid Kshs.15,524,998 on 02 March 2017. Audit review and verification on 09 January 2018 revealed that; out of the 4,300 doses of semen ordered, 3,500 were delivered vide delivery note numbers 3063 and 31199316 while 800 doses remained undelivered. Out of the 3,500 delivered doses 261 doses had been issued while 3,239 doses were stored by the County Directorate of Livestock Development, the County risks losing the already supplied semen and not meeting the objectives envisaged in the memorandum. Consequently, the propriety and validity of the expenditure of bull semen of Kshs.15,524,998 for the year ended 30 June 2017 could not be confirmed.

14.0 Reallocation of Funds without Approval

During the financial year under review, the County Executive paid Kshs.1,000,000 to Lalji Ramji Filling station vide payment voucher number 1649 dated 23 January 2017 being payment for fuel in the department of Town Administration. Further Kshs.927,205 was paid to Edifface Enterprises Ltd vide payment voucher number 1228 dated 26 October 2016 being payment for supply of stationery for the department of Water, Environment and Natural Resources – WENR. Audit review revealed that

these payments totaling to Kshs.1,927,205 were charged to Hospitality supplies and services vote instead of the respective vote heads without any supplementary reallocation or formal approval. As a result, the reallocation was irregular.

15.0 Unaccounted for Non-Pharmaceutical Drugs

During the year under review, the County Executive paid Kshs.122,094,856 to Kenya Medical Supplies Authority for supplies of pharmaceuticals and non-pharmaceuticals drugs to health facilities within the County. Audit review and field verification of sampled health facilities revealed that, non-pharmaceuticals supplies amounting to Kshs.21,870,394 were not recorded in the respective health facilities stores records. Section 162 (2) of the Public Procurement and Asset Disposal Act, 2015 requires an accounting officer of a County procuring entity to ensure that all inventory, stores and assets purchased are received.

In the circumstances, it was not possible to ascertain how the non-pharmaceutical deliveries, worth Kshs.122,094,856 were received and issued to the users thus casting doubt on the validity of the expenditure as at 30 June 2017.

16.0 Unsupported Daily Subsistence Allowance Expenses

During the financial year under review, the County Executive spent Kshs.94,907,057 against a budget of Kshs.131,732,322 for domestic travels. Included in the domestic travel were unsupported and irregular payments totaling to Kshs. 12,791,350.

In the circumstances, the propriety of the expenditure of 12,791,350 for domestic travel as at 30 June 2017 could not be ascertained.

17.0 Alcohol Drinks Control Fund

The County Government of Meru established an Alcohol Drinks and Control Fund vide the Meru County Alcoholic Drinks Act, 2014. However, the Fund's financial statements for the financial year ended 30 June 2017 have not been prepared and submitted to the Auditor-General as required by Section 7 (3) (c) and (d) of the Meru County Alcoholic Drinks Act, 2014.

In the circumstances, the Meru County Executive was in breach of law.

18.0 Meru County Executive Staff Housing Fund

The County Executive Member for Finance established the Meru County Executive Staff Housing Fund Regulations, 2015 pursuant to Section 116 (1) of the Public Finance Management Act, 2012 During the financial year under review, the County Executive transferred Kshs.190,851,126 to Kenya Commercial bank account number 1204408971 in respect to the Fund. As at 30 June 2017, the County had disbursed Kshs.179,500,000 to beneficiaries and the loan balance as at 30 June 2017 was

Kshs.174,919,626. A review of the outstanding loan balances indicated that they related to Fourteen (14) persons who were no longer with the Meru County Executive casting doubt on their recoverability. Further, the bill of quantities for the home improvements and constructions were not provided during the audit. In addition, no financial statements have been prepared for the financial year ending 30 June 2017 as required by the Public Finance Management Act, 2012 in respect to the Fund.

In the circumstances, the accountability, security, accuracy and recoverability of the Fund balance of Kshs.174,919,626 as at 30 June 2017 and any interest earned thereof could not be ascertained.

19.0 Stalled Project

During the year under review Meru County Executive through tender no. MCG/RT/300/2014-2015 contracted Construction of Athiru Rujine Inpatient Ward at Athiru Rujine Ward at a contract sum of Kshs.11,909,700. The works were procured through restricted tendering, but there was no evidence of how conditions set under Section 102(1) in the Public Procurement and Assets Disposal Act, 2015 were met. The first phase that entailed the construction of the inpatient wards to roofing, finishing, plastering and fixing of window casements were done and valued at Kshs.5,833,800 on 10 January 2017 vide certificate number 1. Physical verification revealed that the project had stalled since the first certification and no additional works had been done for one year.

In the circumstances, it was not possible to ascertain that the contract would be completed with the contract price and whether there was any value for money for the Kshs.5,833,800 expenditure that had been paid as at 30 June 2017.

20.0 Nugatory Payments to Council of Governors

During the year under review, the County Government paid Kshs.27,907,106 as per the payments vouchers listed below to support the Council of Governors.

Date	Payee	Particulars	Amount (Kshs)
22/08/2016	Council of Governors	Membership Fees	7,500,000
23/08/2016	Council of Governors	Membership Fees	841,762
05/10/2016	Council of Governors	Membership Fees	2,000,000
05/10/2016	Council of Governors	Membership Fees	841,762
17 /01/2017	Council of Governors	Membership Fees	841,762
17-01/2017	Council of Governors	Membership Fees	881,850
03/03/2017	Council of Governors	Membership Fees	5,000,000
03/03/2017	Council of Governors	Membership Fees	5,000,000
03/03/2017	Council of Governors	Membership Fees	5,000,000
Total			27,907,106

This expenditure was incurred in contravention of Section 37 of the Intergovernmental Relations Act, 2 of 2012 on operational expenses in respect of the structures and

institutions established in this Act which require that such operational expenses be provided for in the annual estimates of the revenue and expenditure of the National Government.

In the circumstances, the County Executive was in breach of the law and the propriety of the expenditure of Kshs.27,907,106 could not be confirmed as at 30 June 2017.

21.0 Other Expenses

21.1 Agricultural Machinery Services- Mitunguu

During the year under review Kshs.2,149,159 was spent in respect to other expenses in Mitunguu. However, there was no documentary evidence that the expenditure was budgeted for. Further, a transfer of Kshs.2,842,952 was made to Nkubu Revolving Fund Account. However, records for this bank account and legislation/regulations guiding the transfer were not made available for audit review. In addition, there was no evidence of compliance with Section 109 (2) of the Public Finance Management Act 2012.

In the circumstances, the propriety and value for money for the above expenditure of Kshs.2,149,159 and Kshs.2,842,852 both totaling to Kshs.4,992,111 could not be ascertained as at 30 June 2017.

21.2 Kaguru Agriculture Training Centre

During the period under review, the County Executive reflected an expenditure of Kshs. 10,121,022 as other expenses for Kaguru Agriculture Training Centre. Further, two transfers of Kshs.4,285,800 both totaling to Kshs.8,579,600 were made to Meru County Revolving Account. Bank statement and cashbook for this bank account were not made available for audit scrutiny. Further, there was no evidence of compliance with Section 109 (2) of the Public Finance Management Act, 2012.

In the circumstances, the propriety and value for money for the expenditure of Kshs.18,700,622 could not be ascertained as at June 2017.

21.3. Coffee Development Fund

During the year, the County Executive paid other expenses of Kshs.5,615,998 (Note 12) to coffee Development Fund without supporting documents. As a result, the propriety and value for money of the expenditure of Kshs.5,615,993 could not be ascertained as at 30 June 2017.

22.0 Pending Bills

The financial statements reflects under Annex 1 to the financial statements an amount of Kshs.1,511,219,240 in relation to pending payables/bills which included unsupported bills totaling to Kshs.103,469,051. Further, the Creditors' ledgers were not made available to ascertain the creditors' movement from Kshs.1,305,362,894 as at 30 June 2016 to Kshs.1,511,219,240 as at 30 June 2017. A review of pending bills

paid during the year under review revealed that bills totaling to Kshs.364,714,588 had not been reflected as pending bills in the financial statement for the year ended 30 June 2016. In addition pending bills Kshs.1,171,903,280 has been included in Acquisition of assets (Note 10) as payables from previous years irregularly and without supporting documents.

As a result, it has not been possible to confirm the accuracy and the validity of the pending bills balance of Kshs.1,511,219,240 reported in the financial statements as at 30 June 2017.

23.0 Foreign Travel and Accommodation Allowances

During the Financial year ended 30 June 2017, the County executive budgeted to spend Kshs.8,847,353 for foreign travel against actual expenditure of Kshs.3,875,560. Included in the foreign travel expenses was an expenditure of Kshs.1,679,888 for three officers travelling to china and Sweden for functions that were not related to the operations of the Meru County Executive.

Consequently, the propriety of the expenditure of Kshs.1,679,888 for foreign travel as at 30 June 2017 could not be confirmed.

24.0 Human Resource Management

24.1 Irregular Recruitment of Casual Workers

Expenditure on casual workers increased by Kshs.8,260,488 (7%) from Kshs.121,628,836 as at 30 June 2016 to Kshs.129,889,324 as at 30 June 2017. This increase may have been caused by uncoordinated recruitment of casual workers. No evidence has been made available for audit to indicate that the County Public Service Board regulated the engagement of the Casuals as required by Section 74 of the County Government Act, 2012. Further, (six) (6) casual employees were duplicated in the schedules used for payments. In view of the foregoing, it has not been possible to ascertain the propriety of the Kshs.129,889,324 expenditure incurred on casual workers as at 30 June 2017.

24.2 New Appointments

During the year under review, the Meru County Executive recruited one thousand three hundred and thirty-one (1331) new employees through the County Public Service Board. However, included in the 1331 newly recruited staff were one thousand two hundred and seventy-four (1274) whose recruitment records were not made available for audit review. Further, these appointments made by the board established that they were made without an updated staff establishment. A review of the payroll reflected 4,208 employees in the IPPD system, with total cost of Kshs.3,127,549,962 while 564 employees were paid manually giving a total of 5,718 employees as at 30

June 2017. Compared with, the IPPD system reflected a total of 3,243 employees while 778 employees at a cost of Kshs.2,792,240,320 were paid manually totaling to 4,021 employees as at 1 July 2016. Given that the County recruited 1,331 employees and 106 employees retired there is un-reconciled difference of 472 employees during the period. As a result, the adequacy, appropriateness, the existence and the necessity to fill vacancies or the possibility of staff progression was not ascertained.

In view of the foregoing, the accuracy and validity of the new appointments of 1331 could not be confirmed as at 30 June 2017.

25.0 Previous Years Unresolved Audit Issues

Review of the progress on follow up of implementation of previous audit issues ended in the 2015/2016 revealed that the Executive has not implemented 73% (Note VIII) of the audit recommendations. No reason was given for this anomaly.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Meru County Executive in accordance with ISSAI 30 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. Except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, I confirm that there were no Key Audit Matters to report in the year under review.

Other Matter

1.1 Budgetary Control and Performance

During the financial year under review, the County had an approved budget of Kshs.10,141,099,698 comprising of Kshs.6,924,212,810 (68.3%) for recurrent expenditure and Kshs.3,216,886,888 (31.7%) for development expenditure. Included in the approved budget was Kshs.457,938,835 recurrent expenditure and Kshs.456,751,368 development expenditure for the County Assembly. Further analysis of the budget revealed that the County Government had a budget of Kshs.3,978,108,917 (39.2%) for personnel emoluments being 4.2% more than the limit set by Section 25 of the Public Finance Management (County Governments) Regulations, 2015. In addition the County Assembly budget was Kshs.921,209,231 being 9.1% of the total budget which exceeded the limit set by 2%.

In the circumstances, Section 25 of the Public Finance Management (County Governments) Regulations, 2015 and Section 107 of the Public Finance Management Act, 2012 were not complied with.

1.2 Revenue Analysis

The projected revenue for the period was Kshs.10,141,099,698 including equitable share for County Assembly of Kshs.921,209,231 but only Kshs.9,360,455,064 was realized resulting into a revenue shortfall of Kshs.780,644,634 as follows:

Item	Budgeted Kshs.	Actual Kshs	Variance Kshs
Equitable Share	7,006,680,257	7,006,680,257	-
Danida Facility	10,295,000	10,295,000	-
Conditional Funding For Level 5 Hosp.	356,069,364	356,069,364	-
Free Maternity Health Care	114,704,443	No details	114,704,443
Compensation For User Fees Foregone Grant	32,096,227	32,096,227	-
Conditional Funding From World Bank-Health	13,420,040	No details	13,420,040
Fuel Levy Fund	107,657,595	107,657,595	-
Coffee Cess	5,615,993	5,615,993	-
Tea Development Fund	25,484,506	25,484,506	-
Doctors Emergency Call Allowance	34,152,000	No details	34,152,000
New Risk Allowance For Doctors	16,080,000	No details	16,080,000
Nursing Service Allowance	69,840,000	No details	69,840,000
Clinical Officers Call Allowance	14,580,000	No details	14,580,000
Health Workers Allowance	240,000,000	No details	240,000,000
County Own Revenue	588,236,727	447,323,961	140,912,766
Hospital FIF	185,000,000	83,996,064	101,003,936
2015/2016 Roll-Over	1,321,187,546	1,285,236,097	35,951,449
TOTAL	10,141,099,698	9,360,455,064	780,644,634

In the circumstances, the overall revenue short fall of Kshs.780,644,634 together with the total under expenditure of Kshs.1,884,396,545 renders the entire budget unrealistic resulting to equivalent undelivered services to the County residents.

2.0 Failure to Establish an Audit Committee

The County Executive of Meru did not have an audit committee in place, contrary to Section 155 (5) of the PFM Act, 2012 which states that the County government shall establish an internal audit committee whose composition and functions are set out in Section 167 (1) of the Public Finance Management (County Governments) Regulations 2015.

No reason has been given for failure to establish the audit committee.

3.0 Ethnic and Regional Balancing

An analysis of ethnic composition of 1331 employees appointed by the Meru County Executive in the financial year under review reflected the following composition

Ethnic Code	Ethnic Name	No of staff	% age
2	Embu	4	0.3%
3	Kamba	2	0.2%
4	Kikuyu	9	0.7%
6	Meru	1301	97.7%
7	Tharaka	10	0.8%
14	Luhya	1	0.1%
22	Luo	1	0.1%
29	Turkana	3	0.2%
Total		1331	100.0%

From the above analysis out of the total 1331 recruited employees 1301 (97.7%) are from the dominant ethnic community in the County. This is contrary to the requirements of the County Government Act, 2012 Section 65(1) which requires that during recruitment 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.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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 such 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.

In preparing the financial statements, management is responsible for assessing the County Executive's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the County Executive or to cease operations, or have no realistic alternative but to do so.

The 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.

Those charged with governance are responsible for overseeing the County's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

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.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

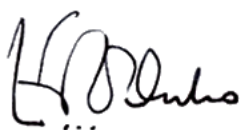
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the County Executive's 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 going concern 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 Executive ability 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 Executive to cease to continue as a going concern or 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 Executive 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.



FCPA Edward R.O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

16 July 2018