

REPORT OF THE AUDITOR-GENERAL ON COUNTY EXECUTIVE OF MURANG'A FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of County Executive of Murang'a set out on pages 7 to 41, which comprise the statement of financial assets as at 30 June 2017, and the statement of receipts and payments, statement of cash flows, summary statement of appropriation: recurrent and development combined and budget execution by programmes and sub-programmes 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, because of the significance of the matters described in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of County Executive of Murang'a 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 do not comply with the Public Finance Management Act, 2012.

In addition, as required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Adverse Opinion

1.0 Presentation of the Financial Statements

A review of the financial statements for the year ended 30 June 2017 revealed the following misstatements:

- i. Included in the annual report and accounts are the summary statement of appropriation-development and the summary statement of appropriation: recurrent and development combined which do not show actual receipts and payments for the period under review. Further, original budget figures were not posted to the statement. The budget figures reflected in the statements relate to supplementary budget which apparently remained constant throughout the year and therefore is misleading and erroneous.
- ii. IFMIS generated bank reconciliations were not annexed to these financial statements as per the reporting format prescribed by the Public Sector Accounting Standards Board (PSASB) vide circular No AG4/16/VOL.IV/76 of 3 July 2017.
- iii. The management has not provided any comments for the significant over expenditure or under expenditure disclosed in the summary statement of appropriation as prescribed in the reporting template and as approved by PSASB.

- iv. The financial statements for the year ending 30 June 2017 notes to accounts were not generated from IFMIS system.

Consequently, the financial statements for the year ended 30 June 2017 do not fully comply with International Public Sector Accounting Standards (Cash Basis) on presentation as prescribed by the Public Sector Accounting Standards Board (PSASB).

2.0 Inaccuracies in the Financial Statements

2.1 Variances between the Financial Statements and IFMIS

The figures in the financial statements for the year ended 30 June 2017 contain various discrepancies compared with IFMIS report balances as summarized below;

Components	Financial Statements Amount-Kshs.	IFMIS Report Amount Kshs.	Variances Kshs.
Total Receipts	6,663,954,646	8,405,370,669	(1,741,416,023)
Total Payments	6,612,304,574	5,625,363,675	986,940,899
Cash and Bank	557,999,259	28,393,997,939	(27,835,998,680)
Receivables		7,980,841	(7,980,841)
Payables	1,347,501,161	19,234,397,715	(17,886,896,554)

In view of the foregoing, the accuracy and completeness of these financial statements for the year ended 30 June 2017 could not be confirmed.

2.2 Discrepancies between Financial Statements Balances and Supporting Schedules

The financial statements for the year ended 30 June 2017 reflect balances that are at variance with the supporting schedules as detailed below;

Item Description	Note	Financial Statements Amount (Kshs)	IFMIS/Supporting Payment Details Amount (Kshs)	Variance (Kshs)
Utilities, Supplies and Services	12	63,934,755	44,621,465	19,313,290
Domestic Travel and Subsistence	12	138,340,800	98,515,685	39,825,115
Foreign Travel and Subsistence	12	1,065,870	7,402,167	(6,336,297)
Printing, Advertising and Information Supplies and Services	12	150,170,042	19,367,576	130,802,466
Rentals of Produced Assets	12	34,197,797	29,962,746	4,235,051
Training Expenses	12	50,693,375	53,438,174	(2,744,799)
Hospitality Supplies and Services	12	61,307,720	20,290,925	41,016,795
Insurance Costs	12	13,189,384	17,247,122	(4,057,738)
Specialized Materials and Services	12	721,474,804	589,220,872	132,253,932
Office and General Supplies and Services	12	32,639,345	11,907,462	20,731,883
Other Operating Expenses	12	153,778,151	84,788,270	68,989,881

Item Description	Note	Financial Statements Amount (Kshs)	IFMIS/Supporting Payment Details Amount (Kshs)	Variance (Kshs)
Routine Maintenance - Vehicles and Other Transport	12	50,601,708	27,000	50,574,708
Routine Maintenance - Other Assets	12	129,890,063	7,532,293	122,357,770
Fuel	12	49,910,511	19,954,042	29,956,469
Subsidies (Grants to Public Corporations)	13	42,620,649	27,088,500	15,532,149
Scholarships and Other Educational Benefits	15	175,160,065	6,882,053	168,278,012
Subsidies to Small business and Cooperatives	15	50,388,278	23,013,311	27,374,967
Other Current Transfers and Grants	15	35,341,695	-	35,341,695
Other Capital Grants	15	35,650,733	54,438,918	(18,788,185)
Social Security benefits	16	4,084,515	4,561,110	(476,595)
Construction of Buildings	17	9,802,675	-	9,802,675
Construction of Roads	17	637,530,301	789,165,721	(151,635,420)
Refurbishment of Buildings	17	2,963,191	2,963,191	-
Construction and Civil Works	17	458,452,354	438,078,042	20,374,312
Purchase of Office Furniture and General Equipment	17	4,557,783	11,251,328	(6,693,545)
Purchase of Specialized Plant, Equipment and Machinery	17	56,262,977	55,779,216	483,761
Purchase of Certified Seeds, Breeding stock and Live animals	17	148,348,890	73,407,690	74,941,200
Other Payments	20	117,514,737	69,927,802	47,586,935

Consequently, the accuracy and completeness of the expenditure on these items for the year ended 30 June 2017 could not be confirmed.

3.0 Fixed Assets

A summary of fixed assets register was not annexed to these financial statements as per the reporting format prescribed by the Public Sector Accounting Standards Board (PSASB). The circular requires that cumulative balances of all County assets and additions during the year should be disclosed. There was no evidence also indicating that assets inherited from the defunct local authorities in the County were recorded and disclosed in these financial statements.

The financial statements, therefore, are not in line with the International Public Sector Accounting Standards and as prescribed by the PSASB.

4.0 Transfers from other Government Entities

The statement of receipts and payments for the year ended 30 June 2017 reflects transfers from other government entities of Kshs.336,776,235 while note 3 to the financial statements indicates nil balance for the same item. No reconciliation or explanation was provided for the variance noted.

Consequently, the accuracy and completeness of the transfer from other government entities totaling Kshs.336,776,235 for the year ended 30 June 2017 could not be confirmed.

5.0 Other Revenue

5.1 County Own Generated Revenue Variance

The statement of receipts and payments for the year ended 30 June 2017 reflects County own generated receipts of Kshs.535,583,977. However, the supporting schedules for the same period indicate an amount of Kshs.506,685,731 resulting in unexplained or reconciled variance of Kshs.28,898,246.

Consequently, the accuracy and completeness of the county own generated receipts of Kshs.535,583,977 for the year ended 30 June 2017 could not be ascertained.

5.2 Under Collection of Revenue

The County Government had targeted to raise revenue amounting to Kshs.880,000,000 from local sources based on the budget approved by the County Assembly for the financial year 2016/2017. However, the actual amount generated totaled Kshs.535,583,977 as reported in the financial statements which accounted for 60.9 per cent of the local revenue target resulting in revenue shortfall of Kshs.344,416,023 or 39.1% as shown below:

Revenue Stream	Budget Estimates 2016/2017	30/6/2017 Current Year Final	% Actual to Estimates	Under collection-Kshs.	Over collection-Kshs.
Licences	126,699,980	101,119,123	80	25,580,857	
Licences Penalties	-	1,746,491			1,746,491
Plot/Land Rates	73,758,168	45,816,216	62	27,941,952	
Land Rates Penalties	2,027,459	1,060,155	52	967,304	
Market Fees	59,900,000	35,292,095	59	24,607,905	
Building Materials & Other Cess	101,180,994	58,177,928	57	43,003,066	
Bus Park Fees	50,691,113	26,907,130	53	23,783,983	
Parking Fee	29,000,900	19,233,498	66	9,767,402	
Motor Bikes	14,701,600	4,740,250	32	9,961,350	
Liquor License	32,845,000	31,093,760	95	1,751,240	

Revenue Stream	Budget Estimates 2016/2017	30/6/2017 Current Year Final	% Actual to Estimates	Under collection-Kshs.	Over collection-Kshs.
Plan Approval	30,000,000	16,962,594	57	13,037,406	
Conservancy	19,102,506	12,155,100	64	6,947,406	
Other Cess Revenue	5,285,351	2,321,190	44	2,964,161	
Sale Of Forms	11,000,000	5,727,400	52	5,272,600	
Tender Forms	285,160	35,000	12	250,160	
Advertisements	9,498,920	10,082,140	106		583,220
Self Help Group	3,613,758	1,764,900	49	1,848,858	
Land Subdivision/Transfer	14,897,097	9,492,012	64	5,405,085	
House/Stalls Rent/S. Hall	9,212,842	5,813,211	63	3,399,631	
Other Land Based Revenue	7,881,921	2,056,700	26	5,825,221	
Impounding Fees	5,500,024	2,063,160	38	3,436,864	
Morgue Fees	2,500,000	3,016,490	121		516,490
Slaughter Fees	1,670,000	594,850	36	1,075,150	
Education & Polytechnics	1,267,942	154,300	12	1,113,642	
Coffee/Tea Cess	-	10,500			10,500
Fire Fighting	-	401,000			401,000
Others	57,426,402	32,978,274	57	24,448,128	
Hospitals	117,373,140	62,167,855	53	55,205,285	
NHIF	-	3,437,000			3,437,000
Public Health	29,700,000	22,342,165	75	7,357,835	
Livestock (A.I)	17,021,296	1,888,460	11	15,132,836	
Meat Inspection	13,529,694	9,011,605	67	4,518,089	

Revenue Stream	Budget Estimates 2016/2017	30/6/2017 Current Year Final	% Actual to Estimates	Under collection-Kshs.	Over collection-Kshs.
Veterinary Clinical Services	4,514,024	915,315	20	3,598,709	
Fisheries	160,000	99,850	62	60,150	
Cooperatives	2,119,330	452,690	21	1,666,640	
Land ,Housing & Physical Planning	8,500,000	160,000	2	8,340,000	
Trade -Weight & Measures	1,499,884	1,122,850	75	377,034	
Mariira Farm	15,035,495	2,918,385	19	12,117,111	
Nema	-	8,200			8,200
Water	600,000	244,135	41	355,865	
Total Revenue	880,000,000	535,583,977	61	351,118,925	6,702,901

From the above table it is clear that out of the 40 main streams of revenue, the County Executive missed its targeted revenue in 33 streams. Further, the County Executive only managed to collect 60.9% of total revenue estimates during year. The actual revenue realized during the year was a significant drop by Kshs.106,228,053 from the previous year (2015/2016) collection of Kshs.641,812,030 as analyzed below:

Financial Year	Revenue Estimates Kshs.	Actual Collection Kshs.	Actual vs Estimates(%)	Change/Growth-Kshs	% Change/Growth
2014/2015	800,000,000	575,477,497	71.9		
2015/2016	850,000,000	641,812,030	75.5	66,334,533	11.5
2016/2017	880,000,000	535,583,977	60.9	(106,228,053)	-16.6
Total	2,530,000,000	1,752,873,504	69.3		

The decline in revenue collection has not been explained. The significant drop in revenue also points to revenue leakages which impacts negatively on the County's resources.

5.3 Un-surrendered Revenue Receipt Books

A review of Counter Receipt Book Register revealed that the sub-county revenue supervisors are issued with revenue receipts books without any proof that the previous revenue receipts have been properly accounted for. The only receipts which are accounted

for are those which are listed by the field collectors in the respective revenue control sheets and which are cleared by sub county field supervisors through field collection receipts. However, a scrutiny of receipt books issued out against the surrendered ones indicated that several receipt books with a total nominal receipts value of Kshs.16,520,000, issued to various revenue clerks had not been surrendered back to the station. The revenue collected through these receipts therefore remains unaccounted for. Further, included in the list of the un-surrendered receipt books were 5,950 leaves of miscellaneous receipts which had not been denominated and did not have nominal revenue value. Consequently, there is the risk of loss of revenue.

6.0 Compensation of Employees

The statement of receipts and payments for the year ended 30 June 2017 reflects compensation of employees' amount of Kshs.2,532,431,406. However, the summary statement of appropriation: recurrent and development indicates nil expenditure balance. Further, the summary statement of appropriation reflects budgeted amount of Kshs.3,266,200,500 instead of Kshs.2,616,427,000 as per approved budget for 2016/2017 thus resulting in unexplained nor reconciled variance of Kshs.649,773,500.

Consequently, the propriety, accuracy and completeness of compensation of employees balance of Kshs.2,532,431,406 for the year ended 30 June 2017 could not be ascertained.

7.0 Use of Goods and Services

7.1 Budget

The statement of receipts and payments for the year ended 30 June 2017 reflects payments totaling Kshs.605,101,387 in respect of use of goods and services. However, during the year, the County Executive allocated Kshs.593,456,767 resulting in over expenditure of Kshs.12,227,571 or 2% of budget. Further, the following observations were made in respect of specific items as disclosed in Note 12 to the financial statements.

7.2 Foreign Travel and Subsistence

Note 12 to the financial statements for the year ended 30 June 2017 reflects foreign travel and subsistence amount of Kshs.1,065,870. However, review of payment register and votebook revealed that the figure exclude an amount of Kshs.1,476,000 incurred by four (4) Members of County Assembly (MCAs) and five officers in respect of travel to Pretoria South Africa on 25 January 2017 and Kshs.608,020 paid to the two (2) officers for foreign travel to India on 9 September 2016. The amount was charged on domestic travel and subsistence account instead of foreign travel. Further, the payments were not supported by boarding passes, reports of the meetings and evidence of travel.

Consequently, the propriety and accuracy of the foreign travel and subsistence amount of Kshs.1,065,870 for the year ended 30 June 2017 could not be confirmed.

7.3 Training

Note 12 to the financial statements for the year ended 30 June 2017 reflects training expenses of Kshs.50,693,375. Included in this figure are payments totaling Kshs.1,338,580

paid on 22 September 2016 and 25 August 2016 comprising of seminars/conference and training of fire brigade amounting to Kshs.689,500 and Kshs.649,080 respectively. However, the payments were not supported by documentation such as signed attendance list, program of training/conference and appropriate authority.

Consequently, the propriety and validity of training expenditure of Kshs.1,338,580 for the year ended 30 June 2017 could not be confirmed.

7.4 Routine maintenance – vehicles and other transport equipment

Note 12 to the financial statements for the year ended 30 June 2017 reflects routine maintenance – vehicles and other transport equipment figure of Kshs.50,601,708 which includes an amount of Kshs.4,992,140 paid to Thika Motor Dealers (K) Ltd for repair of seven (7) motor vehicles attached to the Department of Finance and Economic planning. The management explained that the services could only be rendered by Toyota Kenya since they were the dealers of those vehicles. However, the payments were neither supported with LSO for the service nor the report from the officer in charge of transport before and after the repairs were done.

Consequently, the propriety of expenditure of Kshs.4,992,140 incurred on routine maintenance – vehicles and other transport equipment for the year ended 30 June 2017 could not be confirmed.

7.5 Other Operating Expenses

Included in the use of goods and services figure of Kshs.1,651,194,325 is other operating expenses of Kshs.153,778,151 as disclosed in note 12 to the financial statements out of which an amount of Kshs.14,764,456 was paid out through KCB operations account No.1140746464 for unspecified purpose as follows;

Date	Ref. No./Cheque No.	Payee/Other Particulars	Amount-Kshs.
25.08.2016	1623904024	EE Seedling MDC	5,000,000
14.09.2016	1625811077	EE Seedling MDC	4,541,100
30.09.2016	16/0009	LC amendment commission	611,678
12.10.2016	162780000	LC Margin Provision	4,000,000
15.11.2016		LC amendment commission	611,678
		Total	14,764,456

These expenses were not supported with relevant payment vouchers.

7.6 Procurement of Goods and Services

Included in the use of goods and services amount of Kshs.1,651,194,325 are expenditure totaling Kshs.9,731,150 for purchase of various goods and services. However, procurement records were not presented for audit. Further, some of the documents attached to the payments had several discrepancies as detailed below;

Item	P.V No. Payee	LPO No.	Date	Purpose	Amount-Kshs.	Remarks
Printing, Advertising	31774	5746	23/8/2016	Supply of stationery	970,250	Delivery note dated 17 March 2017 while quotations were opened on 12 April 2016
Printing, Advertising		132	29/9/2016	5800 Mashujaa day programs	1,450,000	- No evidence of delivery or goods received note - No inspection report
Other payments	Cyber base printers Ltd	Various	25/8/2016	Printing of accounting documents	4,449,000	-Quotation used were floated in January 2014 - Photocopies used instead of duplicate
Specialized materials and services	31912	5695	22/8/2016	Purchase of ICT equipment and software	896,000	-Invalid quotations used 8 months after submission -Photocopies of quotations
Other operating expenses	40636	7522	28/10/2016	Supply of accountable documents/books	1,970,000	As at the time of audit the books remained unused thus may not have been required
		Total			9,731,150	

The discrepancies have not been explained.

8.0 Budget and Budgetary Control

8.1 Budget Performance Analysis

During the financial year ended 30 June 2017, Muranga County Executive had an approved budget of Kshs.7,411,408,000 comprising of recurrent vote of Kshs.4,035,118,000 (54%) and development vote of Kshs.3,376,290,000 (46%).The statement of receipts and payments reflected overall expenditure total of Kshs.6,612,304,574 equivalent to 89% absorption rate.

8.2 Projects not implemented

Records presented for audit revealed that several projects with a total budget of Kshs.273,678,000 had not commenced, partially utilized or no evidence was provided indicating that the budget provisions were used for the intended purpose as follows:-

Department	Item Code	Description	Amount - Kshs.	Remarks
Agriculture, Livestock	3111302	Purchase of Animals and Breeding Stock	32,000,000	Not implemented

and Fisheries	2211007	Agricultural materials, supplies and small equipment	176,000,000	Not implemented
	3110500	Tea Industry Infrastructure	42,678,000	Not implemented
	2211003	Veterinarian supplies and materials	23,000,000	Not implemented
		Total	273,678,000	

Consequently, it has not been possible to confirm that the management applied budgetary provisions for the year ended 30 June 2017.

9.0 Pending Bills

Note 26.1 and 26.2 to the financial statements reflects pending accounts payable and pending staff payables of Kshs.1,347,501,161 and Kshs.112,297,209 respectively totaling Kshs.1,459,798,370 (2015/2016 Kshs.1,132,753,757). However, supporting schedules provided for audit reflected pending accounts payable of Kshs.1,199,726,480 resulting in unexplained nor reconciled variance of Kshs.147,774,681.

Further had the bills been paid and the expenditure charged to the accounts for the year under review, the surplus of Kshs.51,650,072 reflected in the statement of receipts and payments would have decreased to a deficit of Kshs.1,408,148,298.

Consequently, the accuracy and completeness of the pending bills totaling Kshs.1,459,798,370 as at 30 June 2017 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the County Executive of Murang'a in accordance with ISSAI 30 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 Adverse 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 Adverse Opinion section, I have determined that there are no key audit matters to communicate in my report.

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 continue sustaining services, disclosing, as applicable, matters related to sustainability of services.

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 Executive'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'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 Executive to cease to continue to sustain its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the County 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