

REPORT OF THE AUDITOR-GENERAL ON COUNTY EXECUTIVE OF MURANG'A FOR THE YEAR ENDED 30 JUNE 2018

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 42, which comprise the statement of assets as at 30 June 2018, and the statement of receipts and payments, statement of cash flows and summary statements 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, because of the significance of the matters discussed 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 2018, 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.

Basis for Adverse Opinion

1. Inaccuracy of the Financial Statements

A review of the financial statements for the year ended 30 June 2018 revealed the following misstatements:

1.1. Cash and Cash Equivalent

Cash and cash equivalents amounted to Kshs.758,480,323 as at 30 June 2018 as per the statement of assets. The statement of cash flows however reflects a balance of Kshs.759,331,910 at the year end, resulting in unexplained variance of Kshs.851,587.

1.2. Fund Balance Brought Forward

The statement of assets as at 30 June 2018 reflects fund balance brought forward of Kshs.565,211,070. However, the corresponding Note 24 to the financial statements

reflects a balance of Kshs.758,480,323 resulting in unexplained variance of Kshs.193,269,253.

1.3. Prior Year Adjustments

The statement of assets reflects prior year adjustments amount of Kshs.260,427,656 carried out during financial year 2017/2018. However, the prior year adjustments of Kshs.260,427,656 were not explained or analyzed.

1.4. Statement of Cash Flows

The statement of cash flows reflects net cash flows from operating activities for the year ended 30 June 2018 amounting to Kshs.1,030,050,340. However, the figures comprising cash flows from operating activities as reported on the face of the statement of cash flows when recasted amounts to Kshs.1,285,768,938. The resulting variance of Kshs.255,718,598 was not explained.

1.5. Summary Statement of Appropriation

The statement of appropriation - recurrent and development combined reflects a final total expenditure budget of Kshs.7,699,437,664 for the year ended 30 June 2018. The approved budget, however, reflects a total expenditure budget of Kshs.7,627,496,603 comprising Kshs.4,610,570,247 for recurrent and Kshs.3,016,926,356 for development, thus resulting in unexplained difference of Kshs.71,941,061.

In addition, the statement of appropriation reflects a final budget for receipts amounting to Kshs.7,503,064,873 against a budgeted expenditure of Kshs.7,627,496,603, thereby leading to a budget deficit of Kshs.124,431,730.

In view of the foregoing, the completeness and accuracy of the financial statements for the year ended 30 June 2018 could not be confirmed.

2. Variance Between IFMIS Balances and Financial Statements

The amounts and balances reflected in the financial statements for the year ended 30 June 2018 differs with IFMIS Report figures as summarized below:

2.1. Statement of Receipts and Payments

Item Category	Amounts as Per Financial Statements Kshs.	Amounts as Per IFMIS Kshs.	Variance Kshs.
Acquisition of Assets	839,596,195.00	892,716,625.80	53,120,430.80
Compensation of Employees	3,326,870,489.00	2,574,893,225.50	-751,977,263.50
Exchequer Releases	6,191,000,000.00	11,950,180,344.00	5,759,180,344.00
Finance Costs, Including Loan Interest	33,461,978.00	30,160,081.00	-3,301,897.00
Other Grants and Transfers	203,630,631.00	90,493,797.00	-113,136,834.00
Other Payments	94,699,089.00	125,240,567.70	30,541,478.70
Other Receipts	423,996,982.00	24,908,490.40	-399,088,491.60
Proceeds from Domestic and Foreign Grants	422,083,894.00	0.00	-422,083,894.00
Social Security Benefits	2,080,184.00	3,524,423.00	1,444,239.00
Subsidies	7,769,519.00	9,265,695.65	1,496,176.65
Transfers from Other Government Entities	0.00	20,749,146.00	20,749,146.00
Transfers to Other Government Units	501,971,452.00	108,129,688.00	-393,841,764.00
Use Of Goods and Services	1,597, 445,503.00	1,602,324,775.05	4,879,272.05
Returned CRF Issues	16,616,907.00	0	-16,616,907.00

No explanations or reconciliations were provided for the above variances.

2.2. Statement of Assets

The balances reflected in the statement of assets as at 30 June 2018 also differs with IFMIS Report as summarized below:

Item Category	Balances as Per Financial Statements Kshs.	Balances as Per IFMIS Report Kshs.	Variance Kshs.
Accounts Receivables – Outstanding Imprests	0	7,809,841	7,809,841
Bank Balances	757,868,229	11,880,212,705	11,122,344,476
Cash Balances	612,094	40,243,666,156	40,243,054,062
Accounts Payable – Deposits and Retentions	7,524,164	23,213,754,589	23,206,230,425
Fund Balance B/Forward	565,211,070	22,358,845,011	21,793,633,941
Prior Year Adjustment	-260,427,656	0	260,427,656
Surplus/deficit for the Year	446,172,744	6,559,089,102	6,112,916,358

Similarly, no reconciliations were provided for the above differences.

2.3. Statement of Appropriation – Unexplained Budget Adjustments

Further, a comparison of summary statement of appropriation – recurrent and development combined for the year ended 30 June 2018 and IFMIS report revealed budget adjustments as follows:

Item	Adjustments as per IFMIS Report Kshs.	Summary Statement of Appropriation Adjustments Kshs.	Variance Kshs.
Acquisition of Assets	707,089,000	32,000,000	675,089,000
Finance Costs, Including Loan Interest	15,000,000	0	15,000,000
Other Grants and Transfers	57,500,000	12,000,000	45,500,000
Social Security Benefits	5,000,000	0	5,000,000
Transfers to Other Government Units	75,500,000	0	75,500,000
Use of Goods and Services	709,031,554	-21,313,155	730,344,709

No reconciliations were provided for the variances relating to the above adjustments.

3. Presentation and Disclosures of the Financial Statements

A review of the financial statements for the year ended 30 June 2018 further revealed the following anomalies as regards presentation and disclosures contrary to the reporting format prescribed by the Public Sector Accounting Standards Board:

- i. The budget and actual figures were not included in the statement of budget execution by programmes and sub-programmes.
- ii. The financial statements submitted did not include an analysis of pending accounts payable under Annex 1, inter- entity transfers under Annex 5 and a bank reconciliation report from IFMIS under Annex 6.
- iii. A statement of assets instead of a statement of financial assets and liabilities as at 30 June, 2018 was prepared and submitted.

4. Variance in County Own Generated Receipts

The statement of receipts and payments for the year ended 30 June 2018 reflects County Own Generated Receipts of Kshs.423,996,982 for the year ended 30 June 2018. However, the supporting schedule provided for audit showed that the County Own Generated Receipts amounted to Kshs.454,597,965, resulting in unexplained variance of Kshs.30,600,983. Consequently, the accuracy and completeness of receipts for the year under review could not be confirmed.

5. Use of Goods and Services

5.1. Unsupported Hospitality Supplies and Services expenditure

Disclosed in Note 12 to the financial statements under use of goods and services is an expenditure of Kshs.53,024,058 relating to hospitality supplies and services. Included in this figure are payments totalling Kshs.2,831,200 in respect of hotel and conference facilities and services offered to the County on diverse dates. However, no documentary evidence in form contract agreements or Local Service Orders issued for the procurement of the services were provided for audit review. As a result, the propriety and validity of the expenditure of Kshs.2,831,200 could not be confirmed.

5.2. Specialized Materials and Services

Included also in Note 12 to the financial statements is an expenditure of Kshs.911,742,236 relating to specialized materials and services. However, the following unsatisfactory observations were made:

5.2.1. Expenditure on Nipe Macho Nione Medical Camp

Included in the expenditure on specialized materials and services is an amount of Kshs.6,082,160 in respect of allowances and refreshments during Nipe Macho Nione Medical Camps organized across the County during the month of November and December 2017 as detailed below:

Date	PV No.	Payee	Amount Kshs.
11/9/2017	10005657	Barclays Bank of Kenya Ltd	1,520,540
11/9/2017	10005656	Barclays Bank of Kenya Ltd	1,520,540
11/7/2017	10005640	Barclays Bank of Kenya Ltd	1,520,540
11/7/2017	10005641	Barclays Bank of Kenya Ltd	1,520,540
		Total	6,082,160

However, the allowances paid to various officers participating in the medical camp and the expenditure on refreshments were not supported by schedules signed by the recipients confirming receipt of the allowances, work tickets for vehicles involved in the exercise, receipts and invoices. In the circumstances, the authenticity, validity and propriety of the expenditure of Kshs.6,082,160 could not be confirmed.

5.2.2. ECDE Feeding Programme

Further, included in specialized materials and services expenditure is an amount of Kshs.47,346,805 explained to have been spent in various ECDE Centers within the County to cater for feeding programmes. However, expenditure returns and related records for the funds transferred to the ECDE Centers were not provided for audit review. Therefore, the validity and propriety of the expenditure of Kshs.47,346,805 could not be confirmed.

5.3. Unsupported Routine Maintenance costs

The financial statements under Note 12, includes an expenditure of Kshs.117,245,807 in respect of routine maintenance of motor vehicles and other transport equipment. This amount includes an amount of Kshs.2,739,325 spent on repair and servicing of motor vehicles as analyzed below:

Date	Voucher No.	Payee	Amount Kshs.
10.05.2018	49128	S.M. Hungi Garage	187,550
29.09.2017	46358	S.M. Hungi Garage	184,800
7.11.2017	47162	Thika Motor Dealers	710,160
7.11.2017	46361	Quinter Enterprises Ltd	106,700
8.02.2018	48359	Thika Motor Dealers	587,015
19.01.2018	47770	S.M. Hungi Garage	963,100
		Total	2,739,325

However, procurement records such as request for quotations, evaluation minutes and LSOs were not presented for audit review. In the circumstances, it was not possible to confirm how the service providers were identified and the nature of repairs/service undertaken or the propriety of the expenditure of Kshs.2,739,325.

5.4. Domestic Travel and Subsistence

Note 12 to the financial statements includes domestic travel and subsistence expenditure of Kshs.82,891,247 for the year ended 30 June 2018. However, the following observations were made:

5.4.1. Unsupported Payment of Allowances to MCAs

Included in domestic travel and subsistence expenditure for the year under review are subsistence allowances amounting to Kshs.1,871,625 paid to thirty-one Members of County Assembly (MCAs) while attending various meetings in Mombasa. The details are as follows:

Date	Voucher Number	Amount
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		Kshs.
22-Dec-2017	47522	502,000
22-Dec-2017	47524	400,000
22-Dec-2017	47523	400,000
22-Dec-2017	47517	569,625
Total		1,871,625

The management did not give convincing reasons why the County Executive funded the trip yet the County Assembly has its own budget for such activities. In the circumstances, the validity of the expenditure of Kshs.1,871,625 could not be confirmed.

5.4.2. Unsupported subsistence allowances for staff members

Further, included in domestic travel and subsistence expenditure incurred during the year under review is an amount of Kshs.4,063,900 in respect of subsistence allowances for forty-six staff members who attended a workshop in Mombasa between 8 and 13 April, 2018. The payment was made in two instalments vide voucher number 48794 dated 9 April 2018 amounting to Kshs.3,761,500 and payment voucher number 48797 for Kshs.302,500.

However, the expenditure was not supported by signed attendance schedules and evidence of travel such as work tickets and bus fare tickets. As a result, the propriety of the expenditure of Kshs.4,063,900 could not be confirmed.

5.4.3. Expenditure on County Development Progress Workshop

The County Executive also spent a total of Kshs.4,547,000 on subsistence allowances for staff attending a county development progress workshop in Mombasa on unspecified date. However, the amount was also not supported by signed attendance list, detail of venue of the workshop and date and program of the event. As a result, the validity and propriety of the expenditure of Kshs.4,547,000 could not be confirmed.

5.4.4. Unsupported Allowances Paid to Members of the County Assembly

The County Executive also paid allowances amounting to Kshs.5,302,000 to the Members County Assembly (MCAs) while attending development progress workshop in Mombasa. However, there were no records to support the expenditure. The payment was not supported by attendance register, details of venue of the workshop, the program of event and the period the event took place. Consequently, the validity and propriety of the expenditure of Kshs.5,302,000 could not be confirmed.

5.4.5. Unsupported Expenditure on Various Events

The domestic travel and subsistence expenditure of Kshs.82,891,247 further includes an amount of Kshs.5,527,435 incurred on various events held during the year under review. However, the expenditure was not adequately supported with relevant documents such as evidence of travel, invitation letters, attendance registers, purpose of travel and

program of events. Consequently, the propriety and validity of the expenditure amounting to Kshs.5,527,435 could not be ascertained.

6. Acquisition of Assets

6.1. Construction and Civil Works

Note 17 to the financial statements on acquisition of assets includes construction and civil works expenditure of Kshs.509,765,207 for the year ended 30 June 2018. This expenditure includes an amount of Kshs.1,485,364.92 paid to a contractors for the construction of Yamugwe Assistant chief's office. Further, the expenditure includes an amount of Kshs.1,458,385 paid to another contractor for refurbishing County Directorate of Criminal Investigations Officer and County Administration Police Commander residences. However, construction of such facilities falls under the National Government's function and as result, the validity of the two payments totalling Kshs.2,943,749.92 could not be confirmed.

7. Other Current Transfers and Grants

Note 15 to the financial statements on other grants and payments includes other current transfers and grants amounting to Kshs.39,562,478. This amount further includes Kshs.35,095,000 that was transferred to Health Centers and Dispensaries within Murang'a County during the year under review. However, expenditure returns in respect of the payments were not provided for audit review. In the circumstances, the validity and accuracy of the expenditure of Kshs.35,095,000 could not be confirmed.

8. Misallocation of Expenditure

The statement of receipts and payments total payments of Kshs.6,607,525,039 includes an amount of Kshs.277,595,040 which was erroneously charged to wrong accounts. The management did not give explanation for the failure to use budgetary provisions as appropriated by the County Assembly.

9. Summary of Fixed Assets Register

Additions of assets acquired during the year 2017/2018 were not included and disclosed in the summary of fixed assets register under Annex 4 to the financial statements as required under the reporting format prescribed by the Public Sector Accounting Standards Board. Further, there was no evidence that assets inherited from the defunct local authorities in the County were recorded and disclosed in these financial statements. Consequently, the fixed assets balance of Kshs.2,489,541,902.20 as at 30 June, 2018 disclosed in Annex 4 is not fairly stated.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of 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 other key audit matters to communicate in my report.

Other Matter

1. Proceeds from Domestic and Foreign Grants

The statement of receipts and payments reflects proceeds from domestic and foreign grants of Kshs.12,405,000 under comparative figures for 2016/2017 financial year. However, the corresponding Note 2 to the financial statement reflects a figure of Kshs.349,181,235 in relation to proceeds from domestic and foreign grants.

2. Transfers from other Government Entities

The statement of receipts and payments reflects transfers from other Government Entities amounting to Kshs.336,776,235 under comparative figures for the financial year 2016/2017. However, the corresponding Note 3 to the financial statement reflects nil balance in respect of transfers from other Government Entities.

3. Cash and Cash Equivalents

The statement of assets reflects under cash and cash equivalents a comparative bank balances of Kshs.573,204,840 as at 30 June 2017. However, Note 21A to the financial statements reflects a corresponding bank balances of Kshs.564,235,037 resulting in unexplained variance of Kshs.8,969,803.

4. Pending bills

Disclosed in Note 26.1 to the financial statements are pending bills amounting to Kshs.1,841,330,912 which were outstanding as at 30 June 2018. The pending bills comprised Kshs.285,770,478 and Kshs.1,555,560,434 relating to construction of civil works and supply of goods, respectively. However, tender documents; contract agreements; local purchase/service orders; invoices/certificates of works; and schedules detailing names of the contractors/suppliers, purchase/service order numbers, invoice/certificate numbers and description of goods supplied, services provided or works done were not provided for audit review. As a result, the validity, completeness and accuracy of the pending bills totalling Kshs.1,841,330,912 could not be ascertained.

Had the pending bills of Kshs.1,841,330,912 as at 30 June 2018 been paid and the expenditure charged to the accounts for the year under review, the statement of receipts and payments for the year ended 30 June, 2018 would have reflected a deficit of Kshs.1,395,158,168 instead of the surplus of Kshs.446,172,744 now shown. It is evident that the management entered into financial commitments for which no funds were available.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Revenue

1.1. Shortfall in County Own Generated Receipts

The County Government had budgeted to raise own generated receipts amounting to Kshs.850,000,000 from local sources in the financial year 2017/2018. However, the actual amount collected was Kshs.423,996,982, which is 49.9% of the projected own generated receipts. The resulting revenue shortfall of Kshs.426,003,018 was not explained. Further, actual revenue realized during the year declined by Kshs.111,586,995 (20%) from the previous year collection of Kshs.535,583,977.

The shortfall and decline in revenue collection are indications of revenue leakages and inadequate revenue collection system which need to be addressed including automation of revenue collection.

1.2. Arrears of Revenue

Records held by the County Executive shows that property rates and rent amounting to Kshs.651,475,339 were outstanding as at 30 June 2018. It was not however possible to establish for how long the arrears of revenue had remained outstanding as age analysis of the debtors was not provided for audit review. Further, the arrears of revenue were not disclosed in the financial statements as at 30 June 2018.

1.3. Un-surrendered Receipt Books from Various Sub Counties

A review of Counterfoil Receipt Book Registers (CRBR) revealed that the sub-county revenue supervisors were being issued with revenue receipt books without any proof that

the previous revenue receipts had been properly accounted for. A scrutiny of revenue receipt books issued against surrendered ones indicated that several receipt books with a nominal value of Kshs.18,570,000 issued to various revenue clerks had not been surrendered back to station. The revenue collected through these receipts books therefore remained unaccounted for as of 30 June, 2018.

2. Budget Performance

2.1. Overall Budgeted and Actual Expenditure

The summary statements of appropriation- recurrent, development and combined for the year ended 30 June, 2018 shows that Murang'a County Executive total expenditure budget was Kshs.7,699,437,664 comprising development budget - Kshs.3,088,867,417 and recurrent budget - Kshs.4,610,570,247. as shown below:

Vote	2017/2018 Budget Kshs.	2017/2018 Actual Expenditure Kshs.	Under-expenditure Kshs.	Percentage of Under- expenditure to the Budget
Recurrent	4,610,570,247	4,457,873,532	152,696,715	3%
Development	3,088,867,417	2,149,651,508	939,215,909	30%
Total	7,699,437,664	6,607,525,040	1,019,912,624	13%

The overall net under-expenditure in the year 2017/2018 was Kshs.1,019,912,624 or 13% of the total budgeted amount. No satisfactory explanation was provided for the budget under-utilization.

2.2. Development Expenditure

The above analysis also indicates that development funds were not fully utilized as planned resulting in an under expenditure of Kshs.939,215,909 or 30% of the budget. The under-expenditure implies that development projects were not implemented as planned thus impacting negatively on service delivery to the residents of Murang'a County. In addition, an analysis of development budget performance per programme could not be carried out because the approved budget was not coded as per the standard chart of accounts.

2.3. Recurrent Expenditure

During the year under review, the County Executive spent a total of Kshs.4,457,873,532 on recurrent expenditure against a budget of Kshs.4,610,570,247 resulting in under expenditure of Kshs.152,696,715 or 3% of the budget. However, an analysis of individual recurrent items revealed that the county had very low or no absorption on some items,

over-expenditure on others and expenditure on items which did not have a budgetary allocation as detailed below:

Item	Approved Budget Amount Kshs.	Actual Expenditure Kshs.	Under Expenditure Kshs.	Over Expenditure Kshs.	Percentage Utilization
Compensation of Employees	3,264,883,662	3,326,480,489		61,596,827	102%
Use of Goods and Services	995,510,172	468,577,039	526,933,133		47%
Subsidies to Non-Financial Public Enterprises	10,000,000	7,769,519	2,230,481		78%
Other Creditors / Public Enterprises	41,000,000	0	41,000,000		0%
Transfer to other Government Entities	37,000,000	501,971,452		464,971,452	1357%
Social Security Benefits	41,158,986	694,597	40,464,389		2%
Other Payments (Budget Reserves)	104,017,427	90,392,028	13,625,399		87%
Other Grants and Other Payments	3,000,000	36,979,475		33,979,475	1233%
Acquisition of Assets	114,000,000	8,518,842	105,481,158		7%
Repayment of Principal on Domestic and foreign borrowing	0	16,490,091		16,490,091	
Total	4,610,570,247	4,457,873,532	729,734,560	577,037,845	97%

The management did not provide satisfactory explanation for the under-expenditure of Kshs.729,734,560 and over-expenditure of Kshs.577,037,845, respectively on some items.

3. Budgetary Controls

3.1. Failure to Upload the Approved Budget Figures in IFMIS

A comparison of approved budget figures and budget figures uploaded in IFMIS revealed differences as follows:

Vote	Vote Name	Amounts as per Approved Budget Kshs.	IFMIS Budget Amounts Kshs.	Variance Kshs.
4014	Agriculture, Livestock and Fisheries	675,426,741	590,426,741	85,000,000
4015	Energy, Transport and Infrastructure	1,199,442,837	1,264,442,837	-65,000,000

Vote	Vote Name	Amounts as per Approved Budget Kshs.	IFMIS Budget Amounts Kshs.	Variance Kshs.
4016	Commerce, Trade, Industry and Tourism	39,223,086	106,123,086	-66,900,000
4017	Education and Technical Training	702,753,685	724,007,901	-21,254,216
4018	Health and Sanitation	3,147,196,012	3,154,096,012	-6,900,000
4019	Lands, Housing and Physical Planning	32,717,091	90,617,091	-57,900,000
4022	Youth, Culture, Gender, Social Services and Cooperatives	313,534,030	396,534,030	-83,000,000
4023	Environment & Nat. Resources	18,000,000	16,986,845	1,013,155
4020	Public Service Administration	908,709,198	0	908,709,198

The management did not give explanations for the above erroneous figures recorded in the approved budget of the County Executive for the year ended 30 June 2018.

3.2. Expenditure Charged to Default Accounts

A review of expenditure records and IFMIS report revealed that expenditure amounting to Kshs.31,421,061 was charged to non-voted item described as default account and which was not provided for in the approved chart of accounts prescribed by the National Treasury as analyzed below:

Department	Expense Item	Budget Amount Kshs.	Actual Expenditure Kshs
4013-Ministry of Finance and Planning	Default Value (Non- Departmental)	0	7,524,489
4015-Muranga - Ministry of Transport, Water and Infrastructure.	Default Value (Non- Departmental)	0	2,291,991
4016-Ministry of Trade, Enterprise, Industries and Resource Mobilization	Default Value (Non- Departmental)	0	5,294,537
4017-Ministry of Education, Information Technology and Tourism	Default Value (Non- Departmental)	0	0
4018- Ministry of Health and Sanitation	Default Value (Non- Departmental)	0	12,057,514
4021 - Ministry of Agro - Marketing and Cooperatives	Default Value (Non- Departmental)	0	0
4022-Ministry of Youth, Culture and Social Services	Default Value (Non- Departmental)	0	4,252,530
Total			31,421,061

The management did not give justifications for failure to align the County's budget and accounts with the standard chart of accounts and the approved budget.

3.3. Irregular Use of Development Vote Funds

A comparative analysis of schedules of expenditure for the year ended 30 June 2018 revealed that expenditure amounting to Kshs.26,638,558 in respect of recurrent vote/items was irregularly expended and charged on development vote contrary to regulation 47 of the Public Finance Management (County Government) Regulations, 2015 which prohibit reallocations of voted provisions from wage to non-wage expenditure or from capital to recurrent expenditure. The management was therefore in breach of the law.

4. Serialization of Payment Vouchers

A review of IFMIS reports for the year ended 30 June 2018 revealed that the numbering of payment vouchers in IFMIS was not sequential. There were gaps in serialization of payment voucher numbers in IFMIS, thereby exposing the County Executive to possible loss of public funds in case skipped payment voucher numbers were utilized without detection. This is contrary to the provision of regulation 104 (1) of the Public Finance Management (County Government) Regulations, 2015 which requires that all receipts and payments of public moneys shall be properly supported by pre-numbered receipt and payment vouchers and shall be supported by the appropriate authority and documentation.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1) (a) of the Public Audit Act, 2015, because of the significance of the matters discussed in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

Basis for Conclusion

1. Lack of Audit Committee

As previously reported, Murang'a County Executive has not established an audit committee as required by regulation 42(1) (e) of the Public Finance Management (County Government) Regulations, 2015. No justification was provided for the prolonged delay in establishment of the committee. Failure to establish an independent audit committee may

lead to loss of public funds or ineffective County Executive operations since the management's activities are not adequately monitored.

2. Purchase of Pharmaceutical Drugs, Non-Pharmaceuticals, Dressings and Lab Reagents

A review of the procurement process for purchase of pharmaceutical drugs, non-pharmaceuticals, dressings and Lab reagents revealed the following weaknesses in internal controls in the year under review:

- i. In most cases, inspection and acceptance committee reports for purchase of pharmaceutical drugs, non-pharmaceuticals, dressings and Lab reagents were raised long after goods had been supplied, recorded in stores, and issued to the user departments with some coming six months after delivery.
- ii. It was observed that the renal unit at the Murang'a County Referral Hospital did not maintain ledgers showing non-pharmaceuticals issued to the department from the main stores in bulk, utilization and the balance thereof making it impossible to confirm that such supplies paid for were actually delivered.
- iii. A follow-up on drugs issued to Murang'a County Referral Hospital Pharmacy department from the hospital main store revealed little or no linkage between counter receipt and issue vouchers (S11) supporting the issues and the ledgers maintained by the pharmacy leading to loss of audit trail and possible loss of drugs and other items.
- iv. A check on the requisition of goods from the Muranga County Referral Hospital main store and issuance to the user department revealed that the hospital did not make use of pre-numbered counter receipt and issue vouchers (S11). The issue notes were printed from A4 papers and serial numbers manually inserted on them. No set criteria were provided for the serialization, creating room for inclusion of non-genuine records.
- v. A review of the supporting documentation to payment vouchers for supplies to Murang'a County Referral Hospital revealed that counter receipt vouchers (S13) / goods received notes, although pre-numbered, were in some cases not issued sequentially. This means that the Counter Receipt Vouchers were not issued as at the time the goods were received in the stores, but only be used as a formality to support a payment.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and 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 governance.

In preparing the financial statements, management is responsible for assessing the ability of Muranga County Executive 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 cease operations, or have no realistic alternative but to do so.

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 the financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7 (1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the County Executive 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 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 Murang'a County Executive's 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 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 County Executive of Murang'a 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

18 February 2019