

# REPORT OF THE AUDITOR-GENERAL ON COUNTY EXECUTIVE OF MERU FOR THE YEAR ENDED 30 JUNE 2018

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## REPORT ON THE FINANCIAL STATEMENTS

### Qualified Opinion

I have audited the accompanying financial statements of County Executive of Meru set out on pages 1 to 116, which comprise the statement of assets and liabilities as at 30 June 2018, and the statement of receipts and payments, statement of cash flows and summary statements of appropriation for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of County Executive of Meru 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 comply with the Public Finance Management Act, 2012 and the County Government Act, 2012.

### Basis for Qualified Opinion

#### 1.0 Accuracy of the Financial Statements

#### 1.1 Variances between Figures Reflected in the Financial Statements and Integrated Financial Management Information Systems (IFMIS)

The financial statements availed for audit reflected huge variances between the financial statements balances and the IFMIS figures as summarized below:

Statement of Receipts and Payments	Financial Statements Amount (Kshs)	IFMIS Statements (Kshs)	Variance Over/Under (Kshs)
<b>Receipts</b>			
Exchequer Releases	7,701,000,000	16,149,745,664	(8,448,745,664)
Proceeds from Domestic & Foreign Grants	143,465,045	-	143,465,045
Transfers from Other Government Entities	741,310,244	-	741,310,244
County Own Generated Receipts	464,630,194	552,696,535	(88,066,341)
<b>Total</b>	<b>9,050,405,483</b>	<b>16,702,442,199</b>	<b>(7,652,036,716)</b>

<b>Statement of Receipts and Payments</b>	<b>Financial Statements Amount (Kshs)</b>	<b>IFMIS Statements (Kshs)</b>	<b>Variance Over/Under (Kshs)</b>
Compensation of Employees	4,390,525,721	3,090,295,947	1,300,229,774
Use of Goods and Services	905,652,704	725,864,361	179,788,343
Transfers to Other Government Units	1,485,689,707	391,104,178	1,094,585,529
Other Grants and Transfers	257,600,003	228,131,546	29,468,457
Social Security Benefits	22,017,639	9,823,524	12,194,115
Acquisition of Assets	889,347,299	1,128,680,536	(239,333,237)
Finance Costs including Loan Interest	14,000,000	217,015,232	(203,015,232)
Other Payments	798,936,507	100,199,790	698,736,717
Subsidies	-	43,995,000	(43,995,000)
<b>Total</b>	<b>8,763,769,580</b>	<b>5,935,110,114</b>	<b>2,828,659,466</b>
<b>Statement of Assets and Liabilities</b>	<b>Financial Statements Amount (Kshs)</b>	<b>IFMIS Statements (Kshs)</b>	<b>Variance (Kshs)</b>
Bank Balances	1,951,263,547	6,593,374,054	(4,642,110,507)
Cash Balances	-	32,123,852,082	(32,123,852,082)
Accounts Receivables – Outstanding Imprests	-	1,322,768,079	(1,322,768,079)
Accounts Payables - Deposits & Retentions	83,143,667	31,689,006,230	(31,605,862,563)
Fund Balance B/fwd	1,583,481,976	-	1,583,481,976
<b>Total</b>	<b>3,617,889,190</b>	<b>71,729,000,445</b>	<b>(68,111,111,255)</b>

From the above summary, the IFMIS and the financial statements reflects receipts of Kshs.16,702,442,199 and Kshs.9,050,405,483 respectively resulting to a variance of a Kshs.7,652,036,716 and therefore the financial statements are understated by the same amount

Further, the IFMIS and the financial statements reflects payments of Kshs.5,935,110,114 and Kshs.8,763,769,580 respectively resulting to a variance of Kshs.2,828,659,466 and which was paid outside IFMIS contrary to Section 12 of the Public Finance Management Act, 2012.

In addition, the statement of assets and liabilities as at 30 June 2018 and a similar statement extracted from IFMIS reflected huge variances in all items resulting to gross variance (understatement) in the financial statements of Kshs.68,111,111,255.

Further, the statement of receipts and payments and the combined summary statement of appropriation for the year under review reflected receipts of Kshs.9,050,405,483 and Kshs.10,050,145,812 respectively resulting into an unreconciled variance of Kshs.999,740,329.

In the circumstances, it was not possible to ascertain the accuracy and completeness of the financial statements balances for year ended 30 June 2018.

## 2.0 Cash and Cash Equivalent Balances

### 2.1 Bank Balances

Note 13A to the financial statements reflected a balance of Kshs.1,953,261,547 in respect of bank balances as at 30 June 2018 which included a cash balance of Kshs.78,997,322.70 for road maintenance levy account. However, all unrepresented cheques totaling to Kshs.2,503,243 which had become stale were not reversed in the cash book hence understating the cash and cash equivalent balance by the same amount.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.1,953,261,547 as at 30 June 2018 could not be confirmed.

### 2.2 Variances Between Cash Book and Financial Statements

Four (4) bank accounts reflected a total debit cash book balance of Kshs.101,287,123 while the financial statements reflected a total balance of Kshs.40,607,890 for the same bank accounts resulting to an unexplained and unreconciled overstatement of the financial statement balance by Kshs.141,895,013 as follows:

<b>Bank Details</b>	<b>Cash Book Balance (Kshs)</b>	<b>Financial Statements (Kshs)</b>	<b>Variance (Kshs)</b>
Co-op A/c	(2,835,880)	(1,100)	(2,834,780)
AMS Mitunguu A/c	1,098,773	1,074,674	24,099
Meru Bursary KCB A/c	(139,075,063)	28,519	(139,103,582)
Meru Hosp KCB A/c	39,525,047	39,505,797	19,250
<b>Total</b>	<b>(101,287,123)</b>	<b>40,607,890</b>	<b>(141,895,013)</b>

In the circumstances, the accuracy of the cash and cash equivalents balance of Kshs.1,953,261,547 as at 30 June 2018 could not be confirmed.

## **2.3 Statement of Cash Flow**

The statement of cash flows for the year under review reflected Kshs.7,802,777,484 in respect of net cash flow from operating activities. However, a re-computation of the same item gave a figure of Kshs.1,104,338,405 resulting to an unexplained and unreconciled difference of Kshs.6,698,439,079.

In addition, the statement reflected a cash and cash equivalent balance at end of the year of Kshs.1,953,263,747. However, a re-computation of the same item gave a figure of Kshs.8,496,912,161 resulting to an unexplained and unreconciled difference of Kshs.6,543,648,414.

In the circumstances, the validity, accuracy and completeness of the statement of cash flows for year ended 30 June 2018 could not be confirmed.

## **3.0 Use of Manual Payroll in Compensation of Employees**

Note 5 to the financial statements reflected Kshs.4,390,525,721 in respect to compensation of employees for the year ended 30 June 2018. However, the County Executive of Meru had two payroll systems in operation- manual payroll system and integrated personnel and payroll database (IPPD) system. The use of the manual system requires manual calculation of deductions and net pay by the human resource officers and constant monthly and/or annual updates of the data which could be prone to human error and manipulation. The analysis of the payrolls revealed that out of Kshs.4,390,525,721 paid, Kshs.218,590,584 was through the manual payroll while Kshs.4,171,935,137 was paid through IPPD system. A comparison of sampled payments made through the two payrolls revealed that an Early Child Development Education (ECDE) Teacher had been paid in both IPPD and the manual payroll for July and August 2017 resulting to double payment of Kshs.31,510.

In the circumstances, it was not possible to ascertain the propriety of the Kshs.218,590,584 paid through manual payroll in the year ended 30 June 2018 including whether it was a proper charge to public funds.

## **4.0 Fixed Assets**

### **4.1 Fixed Assets Register**

Annex 5 to the financial statements reflected a balance of Kshs.5,645,141,234 in respect to fixed assets as at 30 June 2018. However, the fixed asset register reflected a balance of Kshs.5,320,537,527 resulting to an unexplained and unreconciled difference of Kshs.324,603,707.

Further, 1,198 items in the asset register had no historical cost; 22,564 items had no acquisition date and 211 items had no special identification tag numbers. In addition, nine (9) assets worth Kshs.31,570,000 had not been stated as either grounded, worn-out or out of order.

No explanation was given as to why these assets were not disposed or repaired within the financial year under review.

In light of the foregoing, the accuracy and validity of the accumulated fixed asset balance of Kshs.5,645,141,234 as at 30 June 2018 reflected in annex 5 to the financial statements could not be ascertained.

## **4.2 Acquisition of Assets**

### **4.2. 1 Unaccounted for Expenditure on Purchase of ECO-Tosha Materials**

Note 10 to financial statements reflected Kshs.24,996,600 in respect to purchase of certified seeds, breeding stocks and live animals which included Kshs.2,500,000 paid to a merchant for supply of 1,000 ECO-Tosha materials for earthworms for the year ended 30 June 2018.

However, no documentary evidence was availed for audit review to show that the materials had been delivered as at the end of audit in the month November 2018.

Under the circumstances, the propriety and accountability of the Kshs.2,500,000 expenditure for ECO-Tosha materials for the year ended 30 June 2018 could not be confirmed.

## **5.0 Pending Accounts Payables**

Annex 2 to the financial statements reflected a balance of Kshs.2,731,104,289 in respect of accounts payables comprising of construction of buildings, construction of civil works, supply of goods and supply of services of Kshs.454,682,708; Kshs.1,321,619,741; Kshs.477,622,452 and Kshs.477,179,388 respectively as at 30 June 2018.

However, pending bills relating to construction of buildings of Kshs.454,682,708 and construction of civil works of Kshs.1,321,619,741 both totaling to Kshs.1,776,302,449 were not supported by payment vouchers and no certificates of work done were made available for audit verification.

Further, the Creditors' ledgers were not made available to ascertain the creditors' movement from Kshs.1,511,219,240 as at 30 June 2017 to Kshs.2,731,104,289 as at 30 June 2018.

In addition, included in the Kshs.477,622,452 payables for supply of goods was Kshs.12,461,394 relating to an unspecified commitment.

As a result, it has not been possible to confirm the validity, accuracy and completeness of the pending accounts payables balance of Kshs.2,731,104,289 reflected in the financial statements.

## 6.0 Use of Goods and Services

### 6.1 Unsupported Training

Note 6 to the financial statements reflected Kshs.59,766,952 in respect to training expenses for the year ended 30 June 2018. However, there were no approvals from the Human Resource Management and Advisory Committees for the County Executive to sponsor the officers for the courses in different institutions.

Further, the County Executive had not done the training need assessments to ascertain the areas of training priority. In addition, travelling details to show how the officers got to the training centres/institutions and certificates of participation / attendance were not made available for audit.

In the circumstances, the propriety and value for money for the Kshs.59,766,952 expenditures for the year ended 30 June 2018 could not be confirmed.

### 6.2 Fuel, Oil and Lubricants

The financial statements reflects Kshs.905,652,704 in respect to use of goods and services for the year ended 30 June 2018 which included Kshs.35,986,608 in respect to fuel, oil and lubricants which further included Kshs.9,292,809 spent with no evidence on approvals. Further, an amount of Kshs.5,067,570 was spent without certification by the AIE holders. In addition, an expenditure of Kshs.7,704,600 spent through the department of Roads, Transport and Energy was not supported by delivery notes, motor vehicle work tickets and fuel register(s).

In the circumstances, the regularity of the Kshs.22,064,979 expenditure on fuel, oil and lubricants could not be confirmed.

### 6.3 Domestic Travel - Budget Preparation Retreats/Workshops

Note 6 to the financial statements reflected Kshs.138,820,561 in respect to domestic travel and subsistence for the year ended 30 June 2018 which included Kshs.8,629,400 paid to Members of the County Assembly (MCAs) Committees as subsistence for attending workshops/retreats on budget preparation as follows:

No.	County Assembly Committee	Amount Kshs.
1	Lands and Physical Planning	1,721,100
2	Budget	1,465,200
3	Agriculture	1,707,600
4	Health	3,735,500
<b>Total</b>		<b>8,629,400</b>

However, the MCAs ought to have been paid using the budgetary allocation in the County Assembly for subsistence while attending committee businesses. Further, there was no budgetary provision for the expenditure and no explanation was given for paying the MCAs from County Executive's vote.

Consequently, the propriety of the Kshs.8,629,400 expenditure for the year ended 30 June 2018 could not be confirmed.

#### **6.4 Unsupported Domestic Travel**

Note 6 to the financial statements reflected Kshs.138,820,561 in respect to domestic travel and subsistence for the year ended 30 June 2018 which included Kshs.6,317,400 paid without supporting documents including signed attendance schedules, invitation letters, back to office reports and evidences of travel.

In the circumstances, the propriety of the Kshs.6,317,400 expenditure could not be confirmed.

#### **6.5 Routine Maintenance Other Assets**

Note 6 to the financial statements reflected Kshs.6,577,509 in respect to routine maintenance of other assets which included an amount of Kshs.1,999,980 paid to a supplier on for beautification of Meru Makutano highway. The beautification work was completed on 24/06/2018 as per certificate of practical completion. However, the invoice was issued on 02/07/2018, eight (8) days after payment had been done. Further, the bill of quantity had Kshs.80,000 for contingency which was not accounted for.

In addition, the amount quoted by one of the suppliers had been manually altered creating doubt on the integrity and competitiveness of the tender evaluation and award.

Under the circumstances, the propriety of the Kshs.1,999,980 expenditure for beautification during the year ended 30 June 2018 could not be confirmed.

#### **6.6 Hospitality Supplies and Services**

Note 6 to the financial statements reflected Kshs.95,676,671 in respect to Hospitality supplies and services for the year ended 30 June 2018 which included Kshs.157,500 paid as lunch to County Executive officials and fire fighters & rescue teams while attending training within the County headquarters' compound facilitated by Bedfordshire fire and rescue team from the United Kingdom.

However, there was no justification for paying lunch allowances to fire fighters and rescue teams as the training was held within their duty station. Further, Kshs.632,000 was paid to a hotel in Nkubu town within Meru County for conference facilities for 316 participants of the coffee stakeholders conference held on 14 March 2018. However, the respective attendance schedules did not include positions held by the participants and the specific cooperatives' attendees represented.

In the circumstances, the regularity and accountability of the Kshs.157,500 and Kshs.632,000 expenditures on lunch allowances and conference facilities all totaling Kshs.789,500 could not be confirmed.

### **6.7 Nugatory Payments to Council of Governors**

Note 6 to the financial statements reflected a balance of Kshs.157,998,608 in respect of other operating expenses which included Kshs.8,158,841 paid to the Council of Governors. However, Section 37 of the Inter-Governmental Relations Act, 2012 states that all operational expenses of the Council of Governors should be met by the National Government.

Further, included in the Kshs.8,158,841 was Kshs.2,881,850 whose payment vouchers were not provided for audit verification.

Under the circumstances, the propriety and legality of the Kshs.8,158,841 expenditure on Council of Governors could not be confirmed.

### **6.8 Office and General Supplies**

The use of goods and services balance of Kshs.905,652,704 included office and general supplies figure of Kshs.11,413,560 where an expenditure of Kshs.1,280,000 was incurred for supply of sixteen (16) desktop computers for the Department of Health which was wrongly charged to Office and General Supplies instead of purchase of furniture and general equipment under acquisition of assets.

Further, an expenditure of Kshs.1,783,012 on purchase of stationery for the department of Health and Office of the Governor was not included in the financial statements hence understating the amount disclosed under Office and General Supplies. In addition, an expenditure of Kshs.1,713,050 by the department of Health on purchase of Office stationery was not supported with stores bin cards hence the utilization of the stock items could not be ascertained.

In the circumstances, the propriety and validity of Kshs.4,776,062 expenditure for the year ended 30 June 2018 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of County Executive of Meru 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 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 section, I have determined that there are no other key audit matters to communicate in my report.

## Other Matter

### 1.0 Budget Performance and Controls

#### 1.1 Revenue

The combined summary statement of appropriation – Recurrent and Development for the year under review reflected an approved receipts budget of Kshs.10,739,545,788. However, out of the total approved receipts budget of Kshs.10,739,545,788, only Kshs10,050,145,812 was realized resulting to a revenue short fall of Kshs.689,399,976 as follows:

Item	Approved Budget (Kshs)	Actual (Kshs)	Variance (Kshs)	Percentage
Exchequer Releases	7,701,000,000	7,701,000,000	-	100%
Proceeds from Domestic & Foreign Grants	181,091,283	143,465,045	37,626,238	79%
Transfers from Other Government Entities	1,035,938,364	741,310,244	294,628,120	72%
County Own Generated Receipts	821,775,812	464,630,194	357,145,618	57%
Returned CRF Issues	999,740,329	999,740,329	-	100%
<b>Total</b>	<b>10,739,545,788</b>	<b>10,050,145,812</b>	<b>689,399,976</b>	<b>94%</b>

As noted in the table above, out of the budgeted local receipts of Kshs.821,775,812 only, Kshs.464,630,194 was realized resulting to revenue shortfall of Kshs.357,145,618 (43%) which must have had a negative impact on service delivery. It was therefore not possible to ascertain that the Executive had instituted proper and effective revenue collection mechanism(s).

The revenue shortfall of Kshs.689,399,976 could be an indication on revenue leakage especially on the own generated funds.

## 1.2 Expenditure

The combined summary statement of appropriation – Recurrent and Development showed that out of the Kshs.10,739,545,788 expenditure budget, only Kshs.8,763,769,580 (82%) was utilized resulting to an under expenditure of Kshs.1,975,776,208 as follows:

Item	Approved Budget (Kshs)	Actual (Kshs)	Variance (Kshs)	Absorption %
Compensation of Employees	4,523,292,263	4,390,525,721	132,766,542	97
Use of Goods and services	1,227,406,787	905,652,704	321,754,083	74
Transfers to Other Government Units	1,652,671,566	1,485,689,707	166,981,859	90
Other Grants and Transfers	400,000,000	257,600,003	142,399,997	64
Social Security Benefits	80,000,000	22,017,639	57,982,361	28
Acquisition of Assets	2,018,175,172	889,347,299	1,128,827,873	44
Finance Costs Including Loan Interest	18,000,000	14,000,000	4,000,000	78
Other Payments	820,000,000	798,936,507	21,063,493	97
<b>Total</b>	<b>10,739,545,788</b>	<b>8,763,769,580</b>	<b>1,975,776,208</b>	<b>82</b>

From above analysis, the County Executive under absorbed approved budget by Kshs.1,975,776,208 or 82%. This is an indication of lack of proper planning for efficient and effective budgetary execution.

In the circumstances, the under expenditure of Kshs.1,975,776,208 denied the residents of Meru County is equivalent promised and expected services during the year under review.

Further, note 13A to the financial statements reflected a bank balance of Kshs.1,953,261,547 as at 30 June 2018. However, this balance could have been used to render services to the County residents as per the budget.

In the circumstances the residents of the County did not get promised and expected services equivalent to the Kshs.1,953,261,547 bank balance as at 30 June 2018.

## 2.0 Variances in Approved Expenditure Budget and the IFMIS Budget

Comparison of the approved expenditure budget for the year under review and the expenditure budget extracted from IFMIS revealed a variance of Kshs.10,369,709,444

in respect to thirteen (13) departments / ministries of the County Executive as analyzed below:

<b>Department</b>	<b>Approved Budget (Kshs)</b>	<b>IFMIS Budget (Kshs)</b>	<b>Variance (Kshs)</b>
Governor	222,955,765	466,673,558	243,717,793
Treasury	1,357,128,290	2,136,365,030	779,236,740
Agriculture	637,328,192	1,206,120,194	568,792,002
Water	425,776,204	1,935,444,022	1,509,667,818
Education	623,564,828	1,600,238,506	976,673,678
Health	3,174,524,576	6,780,249,144	3,605,724,568
Planning	249,884,969	413,458,720	163,573,751
Public Service	754,064,026	1,520,209,160	766,145,134
Transport	460,604,639	1,830,755,106	1,370,150,467
Co-operatives	322,114,582	503,697,600	181,583,018
Culture	239,456,519	426,138,372	186,681,853
Public Service Board	33,040,000	53,712,570	20,672,570
Town Administration	23,818,000	-	(23,818,000)
<b>Total</b>	<b>8,524,260,591</b>	<b>18,873,061,982</b>	<b>10,348,801,391</b>

In the circumstances, the accuracy and completeness of County Executive's expenditure budget of Kshs.8,524,260,591 for the year ended 30 June 2018 could not be ascertained.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that,

nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

## **Basis for Conclusion**

### **1.0 Delay in Completion of Routine Maintenance at Murera Gate-Rhino Camp**

Note 6 to the financial statements reflected an amount of Kshs.6,577,509 in respect of routine maintenance of other assets. However, during the year under review, the County Executive contracted a merchant on 13th February 2018 for routine maintenance of Murera Gate – Rhino Camp contract No. CGM/ONT/010/2017-2018 at a contract sum of Kshs.28,404,925. A physical verification done on 07 November 2018, revealed that the project had not been completed even though the contract time elapsed on 6<sup>th</sup> August 2018. The contractor had not sought for an extension to complete the project and no explanation was given for delayed completion.

In the circumstances, the delayed completion of the project led to delayed benefits to the residents of the County.

### **2.0 Presentation of Financial Statements**

The International Public Sector Accounting Standards (Cash Basis) reporting template prescribed by the Public Sector Accounting Standards Board (PSASB) requires inclusion of the signature and Institute of Certified Public Accountants, Kenya (ICPAK) membership number of the head of Treasury Accounts to be indicated on the financial statements . However, the head of Treasury Accounts of County Executive of Meru did not indicate his ICPAK Membership number in the financial statements for the year under review creating doubts as to whether he was a member of the institute.

In the circumstances, the presentation of the financial statements for the year ended 30 June 2018 did not conform to the prescribed format by the Public Sector Accounting Standards Board.

### **3.0 Irregular Bank Accounts**

Note 13A to the financial statements showed that, the County Executive of Meru operated thirty-three (33) bank accounts with closing balance of Kshs.1,953,261,547 as at 30 June 2018 made up of twenty-two (22) accounts with Kshs.264,922,123 in commercial banks and eleven (11) with Kshs.1,688,339,424 held at the Central Bank of Kenya. Except for the imprest account with Kshs.41,375,923, the other twenty-one (21) bank accounts with Kshs.223,546,200 held with commercial banks were operated 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 County Executive of Meru was operating the twenty-one (21) accounts in commercial banks.

In the circumstances, the County Government was in breach of the law.

#### 4.0 Procurement of Motor Vehicle Insurance

Note 6 to the financial statements reflected a use of goods and services balance of Kshs.905,652,704 for the year ended 30 June 2018 which included insurance cost of Kshs.234,336,200 which further included Kshs.14,970,148 on motor vehicle insurance paid to an insurance company.

However, the contract between the County Executive and the insurance company dated back 10 February 2014 and the contract terms did not have a specific time frame of operation and neither did it have a renewal clause. The validity of the contract was therefore in doubt.

In light of the foregoing, it was not possible to ascertain that the Executives' motor vehicles were validly insured during the year under review.

#### 5.0 Irregular Procurement

Note 10 to the financial statements reflected Kshs.39,783,097 in respect of purchase of office furniture and general equipment which included Kshs.545,258 paid to a supplier for purchase of five Laptops.

However, the tender opening committee also played the role of tender evaluation committee contravening Section 78 (1)(b) of the Public Procurement and Assets Disposal Act, 2015 which states that at least one of the members shall not be directly involved in the processing or evaluation of the tenders.

Further, the evaluation report was signed by only two members of the committee contrary Section 80 (7) of the Public Procurement and Assets Disposal Act, 2015 which states that the evaluation report shall be signed by each member of evaluation committee.

Under the circumstances, the County Executive was in breach of the law.

#### 6.0 Irregular Reallocation of Funds

During the year under review, the County Executive made inter account transfers of Kshs.126,828,400 as follows:

No.	Payee	Details	Amount Kshs
1	Meru County Deposit Account	Being transfer of monies borrowed from the retention account for the year 2016/2017 to finance operations in the County.	81,000,000

<b>No.</b>	<b>Payee</b>	<b>Details</b>	<b>Amount Kshs</b>
2	Meru County Recurrent Account	Being transfer of funds from Meru County development account number 1000170352 to Meru County recurrent account number 1000170368.	38,328,400
3	Meru County Imprest Account	Funds transferred from Facility Improvement Fees (FIF) Account to Imprest Account	7,500,000
	<b>Total</b>		<b>126,828,400</b>

However, the inter accounts transfers were not approved by the County Treasury contrary to Section 154 of the Public Finance Management Act, 2012. Further, the approvals of the transfers were not sought from the County Assembly by the County Treasurer, contrary to Section 47 and 48 of the Public Finance Management County Government Regulations, 2015.

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

## **7.0 Irregular Emergency Fund Expenditure**

Note 8 to the financial statements reflected Kshs.61,848,046 in respect of Emergency Relief and Refugee Assistance for the year ended 30 June 2018. However, the County Executive did not create an emergency fund as required by Section 110 of the Public Financial Management Act, 2012. The purpose of an Emergency Fund is to enable payments to be made in respect of an urgent and unforeseen need for expenditure for which there is no specific legislative authority in place.

In the circumstance, the Emergency Fund expenditure of Kshs.61,848,046 for the year ended 30 June, 2018 was irregular in the absence of emergency fund and its regulations in place.

## **8.0 Human Resource**

### **8.1 Ethnic Balancing**

An analysis of ethnic composition of 4,584 employees of the County Executive of Meru in the year under review revealed that out of the total 4,584 employees, 4,032 (88%) workforce was from the dominant ethnic community in the County contrary to Section 7 (2) of National Cohesion and Integration Act, 2008 which states that no public establishment shall have more than one third of its staff from the same ethnic community.

In the circumstance, the County Executive was in breach of the law.

## **8.2 Irregular Employment in the Office of the Governor**

Note 5 to the financial statements reflected an increase of Kshs.1,262,975,759 (40%) in wage bill from Kshs.3,127,549,962 for the year ended 30 June 2017 to Kshs.4,390,525,721 for the year ended 30 June 2018.

However, scrutiny of the County Executive personnel records revealed that four (4) unbudgeted positions of advisors in respect to co-operative development, human rights, government relations, gender development and governance with a total cost of Kshs.3,125,800 were filled in the office of the governor.

Further, the positions had not been established by the County Public Service Board and the chief legal advisor was recruited having only four years' experience contrary to the required (advertisement) ten years' experience as a legal practitioner.

In the circumstances, the justification of huge wage increase of Kshs.1,262,975,759 on employees' compensation could not be justified.

## **8.3 Earnings Below the Statutory Minimum**

A review of the Executive's payroll performance for the year under review revealed that in the month of July 2017 and June 2018, 25 and 36 employees salary deductions respectively fell below 1/3 of the basic salary contrary to Section 19 (3) of the Employment Act No. 17 of 2007.

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

## **8.4 Non-Compliance to Fiscal Responsibility Principles**

The financial statements for the year under review reflected compensation of employees expenditure at Kshs.4,390,525,721 (49%) and total revenue of Kshs.9,050,405,483. However, Section 25(1)(c) the Public Finance Management (County Governments) Regulations, 2015 set the limit of compensation of employees at 35% of the total revenue.

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

## **8.5 Expenditure on Plastic Drums**

Note 10 to financial statements reflected Kshs.1,800,000 in respect of rehabilitation and renovation of plant machinery and equipment paid to a supplier for procurement of 600 plastic drums of 2,000 litres for Kshs.1,800,000 (600 drums@ Kshs.3,000). The plastic drums were delivered on 3 May 2018 and were intended to support the rearing of earthworms and black flies in every ward. However, no documentary evidence was made available to show that a needs assessment was carried out.

A physical inspection done on 07 November 2018, six months after the delivery of the drums, revealed that the 600 drums were still stored in the County Headquarters' stores.

Further, the total cost of Kshs.1,800,000 (Kshs.3,000 per plastic drum) was exorbitant compared to the market price of Kshs.600,000 (Kshs.1,000 per drum) hence casting doubt on the value for money spent on the procurement of 600 plastic drums. The Executive therefore paid Kshs.1,200,000 over and above the drums market price.

In the circumstance, the accountability and value for money of Kshs.1,800,000 spent on plastic drums could not be confirmed.

### **8.6 Training – Director of Medical Services Costs**

Note 6 to financial statements reflected Kshs.59,766,952 in respect to training which included Kshs.1,000,000 paid to the director of Medical services for attending a training in Yonsei University Health System in South Korea. The admission letter from the University stated that living expenses would be catered for by the University.

However, included in the officer's surrender documents was Kshs.1,000,000 in respect of payment for rent, maintenance, Wi-Fi, gas, and electricity which ought to have been part of the expenses catered for by the University.

In the circumstance, the regularity of the Kshs.1,000,000 expenditure for the year ended 30 June 2018 could not be confirmed including whether it was a proper charge to public funds.

### **8.7 Irregular Transfer of Funds to Rural Electrification Authority**

During the financial year under review, the roads and energy department of the County Executive transferred Kshs.21,568,081 budgeted for office furniture and general equipment to the Rural Electrification Authority. The purpose for the funds was to aid the installation of transformers in various parts of the County. However, it was not possible to undertake a physical verification as documentation and/or reports relating to the extent to which the installations had been done and location of the installations was not provided for audit. The payments of Kshs.21,568,081 were therefore irregular as the same was not budgeted for purpose of transformers and no evidence on approve of the re-allocation was made available for audit review.

In the circumstances, the value for money and accountability of the Kshs.21,568,081 expenditure for the year ended 30 June 2018 could not be confirmed.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that



govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

### **Basis for Conclusion**

#### **1.0 Lack of Documented Risk Management Policy and Reports**

The Public Finance Management (County Governments) Regulations, 2015, Section 153 (1) (b) states that internal auditors shall have a duty to give reasonable assurance through the audit committee on the state of risk management, control and governance within the organization.

However, audit assessment of the internal controls on the risk management processes revealed that the County Executive of Meru internal audit section did not have a risk management policy. Further, there was no documented formal risk assessment during the financial year 2017/2018. It was therefore not possible to ascertain how risks were identified, their significance estimated and how likelihood of their occurrence was determined. Further, it could not be established how the risks were controlled and monitored to ensure that correction/mitigation measures were effective in the absence of documentation and reports on the same.

Consequently, without risk a management policy in the Executive, it was not possible to ascertain how risks were identified and mitigated during the year under review.

#### **2.0 Non Sequential Numbering of Payment Vouchers**

The PFM (County Government) Regulations, 2015 regulation number 104(1) requires that receipt and payment vouchers of public money to be properly supported by pre-numbered receipt and payment vouchers. However, analysis of County Executive's payment vouchers revealed the numbering of payment vouchers was not sequential.

In the circumstances, the completeness of payment vouchers of County Executive for the year ended 30 June 2018 could not be ascertained.

### **3.0 Duplicate Payment Vouchers**

Scrutiny of IFMIS payment vouchers for the year under review, revealed 745 vouchers worth Kshs.772,653,448 which had duplicate vouchers.

In the circumstances, the accuracy and reliability of the Executive's data for the year ended 30 June 2018 could not be ascertained.

### **4.0 Strategic Leadership Development Course**

Note 6 to the financial statements reflected an expenditure of Kshs.59,766,952 in respect to training expenses for the year ended 30 June 2018 which included Kshs.144,137 incurred by the Director of Enterprise Development and Tourism for strategic leadership development course in Kenya School of Government (Embu). However, the officer sponsored for the course was the chair of Human Resource Management and Advisory Committee which approved the course hence conflict of interest on the process could not be ruled out.

In the circumstances, it was not possible to ascertain that the most appropriate person was sponsored for the course.

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 effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

### **Responsibilities of Management and 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.

In preparing the financial statements, management is responsible for assessing the County Executive of Meru's ability to continue to sustain its 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's or 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 County Executive's 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 noncompliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the County Executive of Meru's policies and procedures may deteriorate.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the 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 as a going concern or 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**

**18 February 2019**