REPUBLIC OF KENYA

OFFICE OF THE AUDITOR- GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF COUNTY GOVERNMENT OF MURANG'A

FOR THE YEAR ENDED 30 JUNE 2015

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke

P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON COUNTY GOVERNMENT OF MURANG'A FOR THE YEAR ENDED 30 JUNE 2015

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of County Government of Murang'a set out on pages 8 to 30, which comprise the statement of assets as at 30 June 2015, and the statement of receipts and payments, statement of cash flows and summary statement of appropriation-recurrent and development combined for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 8 of the Public Audit Act, 2003.

Management's Responsibility 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.

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 4 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 9 of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County Government's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, I am not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

1 .0 Revenue

The statement of receipts and payments reflects total receipts figure of Kshs.5,262,369,435 for the year ended 30 June 2015 comprising of exchequer releases and grants amounting to Kshs.4,695,587,909 and other receipts of Kshs.575,477,497. However, the following was noted:

(i) The total receipts figure of Kshs.5,262,369,435 differed with supporting schedules and recomputed balance of Kshs.5,257,815,443 resulting in unreconciled variance of Kshs.4,553,992.

(ii) The other receipts summaries obtained from the revenue office indicated that Kshs.562,227,534 was collected during the year while the financial statements reflects a figure of Kshs.575,477,497, resulting in unexplained variance of Kshs.13,249,963.

(iii) An amount of Kshs.1,309,153.60 in respect of rent collection through payroll check-off system from staff residing in government staff quarters was not included and disclosed in these financial statements, thereby understating the revenue for the year under review. The rent was also not remitted to the County Revenue Fund account as required by Public Finance Management Act, 2012.

In the circumstances, the accuracy of the receipts figure of Kshs.5,262,369,435 for the year ended 30 June 2015 could not be ascertained.

2.0 Compensation of Employees

The statement of receipts and payments reflects total compensation of employees expenditure of Kshs.2,123,160,680 against Kshs.1,826,448,138 for the previous year, equivalent to an increment of 16%. The compensation of employees expenditure of Kshs.2,123,160,680 accounted for 40% of the total revenue. However, there was no agreed percentage of wages against the total revenue prescribed by the County Executive Committee Member for Finance in a regulation and approved by the County Assembly as required by Section 107(2) of the Public Finance Management Act, 2012. Further, the expenditure exceeded the 35% limit on the County Government's revenue set out by Section 25(1)(b) of the Public Finance Management (County Governments) Regulations, 2015. In addition, the following anomalies were noted:

(i) No ledgers were made available for the compensation of employees figure reported of Kshs.2,123,160,680. As a result, the breakdown of transactions constituting the balance could not be confirmed.

(ii) Basic wages of temporary employees and personal allowances paid as part of salary amounting to Kshs.38,608,632 and Kshs.9,984,632 respectively were included in supporting schedules of basic salaries for permanent employees and again shown

separately as line items in note 5 to the financial statements. This resulted into double counting of the expenditure by Kshs.48,593,592.

(iii) Gratuity to civil servants amounting to Kshs.1,100,194 was included under basic salaries - permanent employees figure of Kshs.2,074,507,087. The financial reporting template however requires gratuity to be reported separately under social security benefits.

(iv) An analysis carried out on the IPPD payroll revealed that allowances totaling Kshs.809,783,889.35 were processed through the payroll during the year. However, an amount Kshs.9,984,632 was disclosed in the financial statements in relation to personal allowances paid as part of salary resulting in a variance of Kshs.799,799.257.35. No explanation has been provided for this difference.

Consequently, the completeness and accuracy of compensation of employees figure of Kshs.1,826,448,138 for the year ended 30 June 2015 could not be confirmed.

3.0 Acquisition of Assets

According to Annex 3 (on summary of fixed assets register) an amount of Kshs.196,372,467.50 was reflected in respect of fixed assets at historical cost for the year 2014/2015 which differed with the statement of receipts and payments balance of Kshs.1,709,401,669. In addition, fixed assets worth Kshs.3,416,726 purchased by the County Assembly during the year under review were also omitted from these financial statements. No reconciliation was provided for these variances.

In the circumstances, the accuracy of acquisition of assets figure of Kshs.1,709,401,669 for the financial year 2014/2015 could not be confirmed.

4.0 Other Grants and Transfers

The financial statements reflects other grants and transfers of Kshs.193,065,229.00 for the year ended 30 June 2015, out of which Kshs.161,751,338.00 was for scholarships and other educational benefits. However, the list of beneficiaries of Kshs.161,751,338 and criteria for award of scholarships were not provided for audit review.

5.0 Cash and Cash Equivalents

The statement of financial assets reflects cash and cash equivalents figure of Kshs.259,465,102 as at 30 June 2015. However the following issues were noted:-

i. The County Government did not disclose an amount of Kshs.77,016,747 bank balances held at Jamii Bora (Kshs.76,963,180) and KCB (Kshs.53,567) for the County Assembly Car Loan and Mortgage accounts respectively.

ii. The County Government operated thirty eight (38) bank accounts including three authorized and opened at the Central Bank of Kenya and thirty five (35) in various commercial banks. However, thirty six bank accounts have not been created in the IFMIS system except recurrent and development bank accounts at the Central Bank of Kenya. Further, the County Government was not able, therefore, to post into the system transactions related to these accounts. Further, the County Government

transferred a total of Kshs.897,121.25 to these accounts from which payments were made through manual cheques and posted in IFMIS through journals.

iii. It was also noted that out of the thirty eight (38) bank accounts maintained by the County Government, only 19 bank account balances were disclosed in the financial statements. No explanation was provided for not disclosing the other 19 bank accounts.

iv. Bank confirmation certificates for all the 36 banks accounts maintained by the County Government were not made available for audit review.

v. The County Government did not disclose bank overdraft balance of Kshs.223,631,252 as at 30 June 2015 as a separate line item in the financial statements as required by the IPSAS cash basis but was instead netted off other financial assets in the financial statements.

In view of the foregoing, the completeness and accuracy of the cash and cash equivalents balance of Kshs.259,465,102 as at 30 June 2015 could not be confirmed.

6.0 Preparation of Fund Accounts

Section 116(7) of the Public Finance Management Act, 2012 requires the administrator of a County public fund to prepare accounts for the fund for each financial year and submit to the Auditor-General for audit not later than three (3) months after the end of each financial year. It was, however, noted that the County Government did not prepare accounts for car loan and mortgage scheme for the period ended 30 June 2015. The bank balances as at 30 June 2015 for the fund were Kshs.76,963,180 and Kshs.53,567 at Jamii Bora Bank and Kenya Commercial Bank respectively. No reason was provided for the omission.

7.0 Pending Staff Payables

The financial statements under note 14.2 reflects a figure of Kshs.112,297,741 in respect of pending staff payables described as "other defunct local government", which is a brought forward balance for the period 2013/2014 financial year. However, no analysis was availed to support the balance. In addition, a schedule provided for audit revealed that as at 30 June 2015, unremitted staff deductions amounted to Kshs.25,535,186.50. No disclosures were made on these financial statements in relation to the unremitted deductions.

8.0 Unresolved Prior Year Matters

The following summary of matters raised in the Auditor-General`s report for 2013/2014 financial year have not been addressed:

8.1 Assets and Liabilities

(i) Pending bills of unknown amount outstanding as at 30 June 2014 were not included in notes to the financial statements

(ii) Assets acquired during the year and those inherited from defunct local authorities were not disclosed in notes to the financial statements.

8.2 Grants and Other Transfers

(i) There was an unexplained difference of Kshs.1,483,820 noted between payment analysis and the figure reflected in the financial statements for 2013/2014.

(ii) Scholarship payments amounting to Kshs.383,372 were omitted from the analysis of payments thus understating grants paid during the year ended 30 June 2014.

9.0 Budgetary Performance Analysis

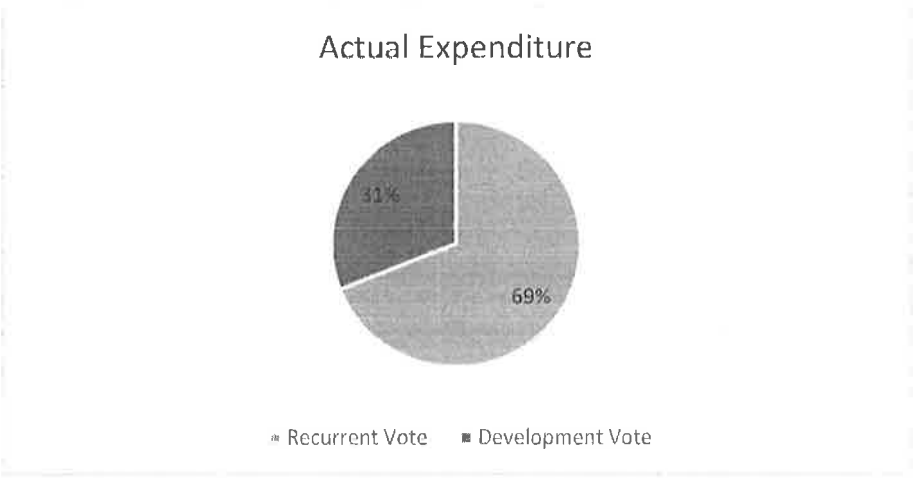
The County Government had an approved gross total budget for 2014/2015, of Kshs.5,981,587,000 comprising Kshs.2,864,065,000 (48%) for recurrent and Kshs.3,117,522,000 (52%) for development expenditure while the gross actual expenditure amounted to Kshs.5,554,287,890 as follows:-

Item	Budget 2014/2015	Actual 2014/2015	Absorption rate %	As % of Total Expenditure
Recurrent Vote	2,864,065,000	3,830,048,177	134%	69%
Development Vote	3,117,522,000	1,724,239,713	55%	31%
Total	5,981,587,000	**5,554,287,890**	**93%**	**100%**

The gross approved recurrent budget was Kshs.2,864,065,000 while actual expenditure amounted to Kshs.3,830,048,177 or approximately 134%, resulting in over expenditure of Kshs.965,983,177 The actual expenditure for development vote amounted to Kshs.1,724,239,713 or 55% of approved budget of Kshs.3,117,522,000. However, no explanation was provided for the failure to adhere to the approved budget. The analysis also indicate that development funds were used to defray recurrent expenditure items contrary to Section 154 of the Public Finance Management Act, 2012 and was not regularized through a supplementary budget.

9.1 Expenditure Analysis for 2014/2015

(i) The approved final budget for the County Government was Kshs.2,864,065,000 for recurrent and Kshs.3,117,522,000 for development while actual expenditure for recurrent amounted to Kshs.3,830,048,177 and development to Kshs.1,724,239,713 as illustrated in the pie chart below:-



(ii) Actual Expenditure Vs Budget

The County Government incurred the following expenditure vis-à-vis the budget per subhead.

	Item	2014/2015 Budget (Kshs)	Actual Expenditure (Kshs)	Over/Under Expenditure (Kshs)
1	Use of Goods and Services	814,573,000	1,288,974,570	474,401,570
2	Compensation to Employees	2,179,818,000	2,123,100,351	(56,717,649)
3	Other Grants and Payments	417,100,000	193,065,229	(224,034,771)
4	Subsidies	88,152,735		(88,152,735)
5	Acquisition of Assets	1,936,822,000	1,608,601,699	(328,220,201)
6	Finance Costs			
7	Other Payments	580,000,000	224,847,699	(355,152,301)

The County Government over spent on use of goods and services but under spent on all other sub-heads.

(iii) Further, the County Government transferred funds from both the recurrent and development accounts held at the Central Bank into the departmental bank accounts at various commercial banks resulting in a mix of both the recurrent and development funds. Payment vouchers were also not filed separately according to votes.

(iv) The funds transferred to the departmental bank accounts were not accompanied by a schedule of expenditure limits for the various votes.

(v) In addition, vote control was not done through the IFMIS system. The payments were only journalized in the system once the expenditure was incurred. Further, relevant details of vote, sub vote, head and item charged was not indicated in the

payment vouchers. It was therefore not possible to differentiate what was paid under recurrent, development or department.

9.2 Development Expenditure for 2014/2015

S/No	Department	No. of projects Budgeted 2014/2015	2014/2015 Approved Budget Kshs.	Actual Expenditure 2014/2015 (IFMIS)- Kshs.
1	Marketing & Cooperative	5	310,000,000	Information not Available
2	Trade & Marketing	5	178,000,000	"
3	Health	9	326,000,000	
4	Agriculture	9	154,000,000	
5	Education	5	247,000,000	
6	Infrastructure	Unknown	1,059,000,000	
7	Finance & Planning	9	3 78,000,000	
8	ICT Department	1	26,000,000	
9	Youth Culture & Sports	7	68,000,000	
10	Ministry of Env. & Nat. Res.	7	34,800,000	
11	Lands & Housing	8	53,000,000	
	County Executive Total Development Vote		**2,833,800,000**	**1,557,131,935**

An amount of Kshs.2,833,800,000 was allocated to eleven (11) departments to finance projects while actual expenditure amounted to Kshs.1,557,130,935. However, no departmental breakdown of actual expenditure and projects implemented was provided for audit review.

Further, a review of records and payments maintained by the County Government revealed that the following projects allocated Kshs.388,000,000 in the approved budget were implemented:

Project	Amount Allocated (Kshs)
Land and banking	200,000,000
Revenue system	10,000,000
Fruit processing plant	80,000,000
Avocado grading machinery	20,000,000
Coffee roaster	15,000,000
Milk collection vehicles	30,000,000
Animal feeds processing plant	33,000,000
Total	**388,000,000**

However, the implementation status of those projects were not provided by management as of 30 June 2015.

In the circumstances, the project information including expenditure, level of completion and those not started could not be determined.

9.3 Reallocation of Funds

During the year under review, an amount of Kshs.48,342,518.25 was reallocated from Department of Finance, ICT and Planning and utilized to pay for pharmaceuticals, non-pharmaceuticals and grading of roads expenditure items totaling Kshs.48,342,518.25 under the Department of Health, and Department of Infrastructure. However, no approval was sought from the County Treasury for the reallocations as required by Section 154(2) of Public Finance Management Act, 2012 hence the expenditure was irregular.

9.4 Staff Salaries and Wages

Analysis of staff salaries and wages is as follows:

Details	Actual 2013/2014	Actual 2014/2015	Approved Budget 2014/2015	Over Expenses	Under Expenses
Basic salaries permanent employees	1,815,741,260	2,074,507,087	2,097,927,000	-	23,419,913
Basic Wages	34,514,288	38,608,632	73,391,000	-	34,782,368
Allowances paid as part of salaries	44,903,135	9,984,632		9,984,632	
Total	**1,895,158,683**	**2,123,100,351**	**2,171,318,000**	**9,984,632**	**58,202,281**

(i) Out of total County expenditure of Kshs.5,539,449,876 during the year under review, the County Government spent Kshs.2,123,100,351 on personnel emoluments or approximately 38% of the total expenditure.

(ii) The total expenditure on personnel emoluments of Kshs.2,123,100,351 during the year under review represents 74% and 58% of total recurrent budget and actual expenditure of Kshs.2,864,065,000 and Kshs.3,830,048,177 respectively.

(iii) The total county employee cost increased by Kshs.227,941,668 in 2014/2015 financial year as compared with actual incurred in 2013/2014. No explanation was provided for the material increase.

9.5 Inaccurate Financial Statements

A comparative analysis of figures reported in the financial statements and IFMIS balances revealed differences as tabulated below:-

Details	Amount as per Financial Statement (Kshs)	Balance as per IFMIS report (Kshs)	Difference (Kshs)
Receipts	5,262,369,435	-	5,262,369,435
Payments	5,539,449,876	5,547,377,451	(7,927,575)
Financial Assets	259,465,102	-	259,465,102
Opening balances	527,849,572	-	527,849,572

These variances were not explained or reconciled.

9.6 Variances between IFMIS Budget Execution Report and the Financial Statements

Discrepancies were noted between the budget execution report extracted from the IFMIS system and the budget figures as per the summary statement of appropriation presented on the financial statements as follows:

Recurrent Budget	Budget (Kshs)	Actual Expenditure (Kshs)
Balance as per financial statements	3,687,973,483	3,823,137,738
IFMIS balance	2,294,065,000	2,615,269,926
Variance	1,393,878,483	1,207,867,812
Development Budget	**Budget (Kshs)**	**Actual Expenditure (Kshs)**
Balance as per financial statements	1,833,325,046	1,724,239,713
IFMIS balance	3,117,522,000	2,489,466,775
Variance	(1,284,196,954)	(765,227,062)

10.0 Revenue Analysis

The total revenue received by the County Government increased by Kshs.514,950,449 from Kshs.4,742,864,994 in 2013/2014 to Kshs.5,257,815,443 in 2014/2015. The increase was as a result of increased exchequer releases, grants and improved local revenue collection as analyzed below:-

Receipts by category	Actual Receipts 2013/2014	Approved Budget 2014/2015	Actual 2014/2015	Performance
Domestic and foreign Grants	-	22,430,000	22,430,000	100%
Exchequer release	4,119,107,997	4,673,157,909	4,673,157,909	100%
Transfers from other entities	65,612,645	-	-	-
Local collection	558,144,352	800,000,000	562,227,534	70%
Total	**4,742,864,994**	**5,495,587,909**	**5,257,815,443**	**96%**

The County Government received total revenue of Kshs.5,257,815,443 against estimated collections of Kshs.5,495,587,909, resulting in under-collection of Kshs.237,772,466 or approximately 4% of the approved revenue budget for the period ended 30 June 2015.

10.1 Under-collection of Revenue from Local Sources

The approved County revenue budget for 2014/2015 from local sources amounted to Kshs.800,000,000. However, only Kshs.562,227,534 or approximately 70% was collected, resulting in under-collection of Kshs.237,772,466. No explanation was provided for the material shortfall in revenue collection. Further, the revenue target of Kshs.800,000,000 in the approved budget was not analyzed to show detailed categories of revenue. It was not possible therefore to compare the budgeted amount and actual collected from each class of revenue. Analysis of revenue collection for the two financial years is given below:

Source	2014/2015-Kshs.	2013/2014-Kshs.	% Increase/ (decrease)
Licences	91,352,399	90,705,861	1%
Land rates	43,097,517	42,711,131	1%
Market fees	44,983,309	41,983,685	7%
Penalties	4,560,415	-	100%
Building Material Cess	72,851,539	45,941,259	59%
Bus park fees	33,519,865	12,212,545	174%
Parking fees	17,777,510	51,647,375	-66%
Motor bikes fees	10,748,905	8,877,845	21%
Liquor Licence	18,401,900	12,751,605	44%
Plan Approval	11,919,366	7,160,775	66%
Conservancy	12,274,260	7,828,499	57%
Other cess revenue	2,816,099	-	100%
Sale of forms	11,346,485		100%
Tender Forms	542,390	-	100%
Advertisements	6,050,775	5,311,434	14%
Self Help Group	2,383,150	2,403,900	-1%
Land Sub division	9,230,830	3,514,400	163%
House/ stall rent	5,996,130	3,998,161	50%
Other land based revenue	4,151,395	715,900	480%
Morgue fees	1,689,550	1,390,200	22%
Slaughter fees	1,166,685	1,078,570	8%
Impounding	3,752,750	-	100%
Coffee Cess	1,418,875	-	100%
Education and Polytechnic	937,490	306,600	206%
Others	16,524,052	26,364,401	-37%
Hospitals	80,248,600	45,937,780	75%
Public Health	15,982,120	3,851,534	315%
Livestock(A.I)	10,547,820	-	100%
Meat Inspection	9,612,880	-	100%
Vet. Clinical Services	2,858,080	-	100%
Fisheries	98,040	97,420	1%
Cooperatives	1,028,890	646,950	59%

Housing and Physical planning	1,665,396	1,455,030	14%
weights and measures	992,580	264,170	276%
Mariira farm	9,422,172	747,736	1160%
Water	277,315	84,951	226%
Total	**562,227,534**	**419,989,717**	**34%**

In addition, the following observations were made:-

(i) Revenue cash book was not maintained.
(ii) Revenue collection control sheets were not maintained by revenue collectors
(iii) Used revenue receipt books were not returned and recorded in a register.

In the circumstances, it has not been possible to confirm that all revenue budgeted for by the County Government was collected, banked and accounted for.

10.2 Lack of controls on issuance of Receipt Books

A review of Counter Receipt Book Register (CRBR) maintained by the County Government revealed the following:-

(i) The receipt books register at the County's stores is used only for receiving and issuing but the used books are never returned for clearance and custody. The County's Revenue officer did not have information regarding the number of collection receipts in the field at any one time. There was no coordination between stores and the County revenue office regarding the issuance and usage of revenue receipts.

(ii) The Sub-County revenue supervisors were issued with revenue receipts without any proof that the previous revenue receipts were properly accounted for. The only receipts which were accounted for are those which were listed by the field collectors in the respective revenue control sheets and cleared by Sub County field supervisors.

(iii) Revenue clearance receipts were not uniform in the Sub Counties. Whereas field collection receipts should be used to clear revenue collected by the field collectors, some general receipt books were also in use. It was, therefore, not possible to carry out reconciliations on revenue collected, used receipt books, banking and unused receipt books.

In the circumstances, it was not possible to confirm whether all collections from the revenue receipts were accurate and fully accounted as of 30 June 2015.

10.3 Procurement of E-Revenue system

E-Revenue is a system being implemented by Safaricom Business Service and is meant to integrate both cash and cashless mode of payment and to cater for all revenue streams for the County Government. The County Government invited sealed bids for the supply installation and commissioning of E-Revenue system through tender No: MCG/011/2014-2015. The tender was opened and evaluation done where all the bidders qualified in the technical evaluation, and financial evaluation. The evaluation committee recommended Safaricom Business as the lowest evaluated bidder. A review of the procurement process revealed the following:-

(i) Special conditions (1 and 2) on the standard tender document required that the supplier must show proof of having installed similar systems in Kenya in the last two (2) years and the items must have been tested for not less than two (2) years which was a mandatory requirement. It was, however, noted that Safaricom had only tested their system in Kiambu County and demonstrated in Kitui County. Furthermore, these conditions were not considered during technical evaluation only to be brought on during negotiation.

(ii) From the contract agreement dated 19 December 2014, the work schedule was planned to take forty-five (45) days where the project was to go live on Friday 31 October 2014. However, the project as at 20 November 2015 had not gone live with only a month remaining for expiry of the contract.

(iii) From the tender committee minutes, it was noted that the revenue department was not involved in the process of acquiring the system especially at requirement gathering where their input is critical.

(iv) The supplier failed to consistently provide all-time support and maintenance of the software.

(v) The supplier had failed to fully implement the system and customize reports

(iv) In addition, Section 12(1) (e) of the Public Finance Management Act, 2012 empowered the National Treasury to design and prescribe an efficient financial management system for the National and County Governments to ensure transparent financial management and standard financial reporting. It was, however, noted that, the County Government procured and implemented revenue collection system without consulting National Treasury contrary to provisions of the Constitution and Public Finance Management Act, 2012.

10.4 LAIFOMS Revenue Management System

Revenues in the County are managed by use of LAIFOMS system in two sub Counties namely Murang'a Township/HQ which has fully automated revenue management and Maragua Sub County which has partially automated revenue management. The following audit issues that might affect the accuracy of reported revenue were noted: -

(i) Seven hundred and eleven (711) receipts numbers totaling Kshs.6,583,550.00 were duplicated.

(ii) There was a gap of ten thousand (10000) missing receipt numbers (551262014080001 to 551262014090001. Revenue collected may be understated to conceal misappropriated receipts.

(iii) Twenty-eight (28) receipts issued had zero collections. The receipted zero collections might have resulted in loss of revenue.

11.0 Use of Imprest to Implement Projects and Procurement of Goods and Services

During the year under review, the County Government advanced imprest to staff as detailed below for the purpose of cash purchases of goods and services and to implement some

projects. The purchases were above Kshs.30,000 allowed for low value procurement as stipulated in Regulation 63 of the Public Procurement and Disposal Regulations, 2006. The County Government also contravened Treasury Circular Ref AG 20/047 Vol.9 (89) dated 26 November 2013 which prohibits use of imprests to procure and implement projects.

The details of the irregularities are as follows:-

(i) The County Government advanced imprests amounting to Kshs.1,673,536 and Kshs.2,637,600 to two officers to pay casual wages incurred in the implementation of Githembe Saba-Saba ward water pipeline and Gatahuagwo water project. However, the imprests were not supported by any documentary evidence to show the extent and details of the intended works, the existence of the casuals and completion certificates for the works done issued by a qualified/competent water engineer/specialist. The bill of quantities for the works being implemented was also not provided for audit review.

(ii) An officer in the Agro Marketing department was issued with several imprests totaling Kshs.1,673,536 to procure goods and also mobilize and sensitize farmers on the benefits of various County Government programs or initiatives to help them market their produce. The purchases were single sourced and amounts were above the set threshold of Kshs.30,000 under the Public Procurement and Disposal Regulations. There was no evidence of receipts or distribution of the items procured.

(iii) An officer was issued with an imprest amounting to Kshs.1,557,116 on 22 December 2014 for compensation of French beans farmers for rejected French beans produce. However, there was no contractual document stipulating the responsibility of the County Government with regard to handling of French beans from farmers. The documents for delivery and rejection were also not provided for audit review.

Consequently, the propriety of the payments could not be confirmed and may not be a proper charge to public funds.

12.0 Procurement of Consultancy on Alcoholic Drinks Control

A contract agreement was entered into on 15 December 2014 between the County Government of Murang'a and a consultant to establish an Alcoholic Drinks Control Directorate in the County. The key deliverables by the consultant were to strategize on the implementation plan for the Murang'a County Alcoholic Drink Control Act, 2014, to plan and develop local partnerships and to align the Act to the needs and concerns of the various partners and stakeholders within the County. The terms of reference agreed upon were that the consultant was to perform the duties of the Director for a period of 3 months and be responsible to the County Executive Member for Health and Sanitation. In consideration for the services to be provided by the consultant, the County Government was to pay a comprehensive stipend of Kshs.630,000 per month for the 3 months amounting to Kshs.1,890,000. It was, however, noted that an amount of Kshs.1,850,000 was fully paid in advance vide payment voucher No. 18963 of the same date.

Consequently, the propriety of the payment could not be confirmed as an appropriate charge to public funds.

13.0 Office of the Governor and Deputy Governor Expenditure

13.1 Procurement of Human Resource Consultancy

A review of budget indicated that an amount of Kshs.10,000,000 had been allocated for a human resource consultancy and reorganization under the Governor's office. The County Government single-sourced and procured human resource consultancy services at a cost of Kshs.13,000,000 from JKUAT Enterprises Ltd as indicated in a letter dated 28 October 2014 inviting JKUAT Enterprises to submit a combined technical and financial proposal for the consultancy.

The County Government tender committee vide minutes dated 17 November 2014 approved a Memorandum of Understanding (MOU) between the County Government and JKUAT Enterprises Ltd and the Terms of Reference (TOR) for the consultancy. The two parties to the contract agreed and a local service order for a contract sum of Kshs.13,000,000 was raised instead of the budgetary allocation of Kshs.10,000,000. No explanation was provided regarding the source of extra funding of Kshs.3,000,000.

Although there were no proper records maintained to ascertain how much had been paid under the contract, a G-Pay Report provided for audit revealed that JKUAT Enterprises was paid a total of Kshs.7,800,000 during the year under review which were effected through payment voucher numbers 11844, 16037 and 17262. No draft report relating to the procurement was availed for audit and it was not explained why the County Government preferred to single sourcing the service contrary to the provisions of Section 78 of Public Procurement and Disposal Act, 2005.

13.2 Payments for Deputy Governor's Residence

The County Government entered into a five year lease agreement with a company for lease of premises located off Thika-Gatanga Road on land reference number 28844 and land title I.R 103246/2 for the occupation by the Deputy Governor. The parties agreed to the conditions of the agreement where the annual rent was payable quarterly in advance and that during the first two years, the rent payable would be Kshs.360,000 per quarter and that from the third year the rent would be Kshs.80,000 per quarter.

It was also agreed that the first quarter rent of Kshs.360,000 was payable immediately upon the execution of the lease together with the rent for the month of May 2013. However, the lease agreement was not dated and was not witnessed by any third parties. The effective date of the agreement was 1st May 2013 for a period of 5 years and 3 months. If the terms of the lease agreement were to be followed, the County Government would pay a total of Kshs.7,820,000 in 5 years and 3 months being Kshs.2,880,000 in the first two years and Kshs.4,940,000 in the remaining three years and 3 months.

The lease agreement did not, however, expressly indicate the intended occupant, but on inquiry, it was established that the house is occupied by the Deputy Governor.

During the year under review, rent payment for the two quarters beginning March to August 2014 of Kshs.720,000 was paid to the landlord on 12 August 2014 vide payment voucher number 9445. The payment and provision of residence to the Deputy Governor is in contravention of the Gazette Notice No.2888 of 1 March 2013 by the Salaries and Remuneration Commission (SRC) which it provides that the only the Governor will be

provided a house as a benefit. Further, the SRC Circular SRC/TS/CGOVT/3/61 clarifies that the Deputy Governor's gross monthly remuneration consolidates the basic pay and housing allowances.

14.0 Implementation of Projects

14.1 Supply, Installation and Commissioning of Milk Processing Plant at Maragua

Examination of records revealed that contract No.MCG/033/2013-2014 for the supply, delivery, installation and commissioning of a milk processing plant was awarded through open tender on 1 September 2014 to a firm at a contract sum of Kshs.250,824,393. However, the following observations were noted on the contract:

(a) Change of location of the plant

According to the signed contract dated 28 November 2014, the contract was to be implemented in two phases namely: phase I -setting up a pasteurization plant including building, installation and commissioning at a cost of Kshs.161,501,462 and phase II involving extended shelf life (E.S.L) processing and packaging line and yoghurt processing and packing lines at a cost of Kshs.89,322,931. The milk plant was to be located at the Industrial Park in Kabati but the site of the plant was changed to Maragua for unexplained reasons.

(b) Contract Period

According to the contract agreement dated 28 November 2014, the contract period was for 6 months and the project was expected to be completed by 2 June 2015. However, physical verification carried out in October 2015, ten (10), months after commencement of works revealed that the project was still incomplete.

No valid reason was given for the delay in completion of the project. Further, no site inspection minutes were prepared for the project and the audit could not determine when and if the project will be completed.

Consequently, the propriety of the expenditure on the project during the year ended 30 June 2015 could not be confirmed.

14.2 Construction of Irrigation Schemes

(a) Kimathi/Githuri Irrigation Project

The County Government awarded through open tender contract No. MCG/019/2013-2014 to a Company at a contract sum of Kshs.218,356,862.23 on 20 February 2014. However, records of payments and certificate of works completed were not provided for audit review except two vouchers dated 25 March 2015 and 22 April 2015 for an amount of Kshs.30,000,000 and Kshs.16,995,079.07 respectively. Further, 10% retention money, 6% VAT and 3% withholding tax totaling Kshs.8,929,065 relating to the payment was not deducted from the contractor. In the absence of procurement and payment records. It was not possible to confirm whether the contract was competitively awarded in accordance with the public procurement laws. In addition, physical verification carried out on the project revealed that the water channel/piping has persistent water bursts due to pressure. This

means that the contractor did not carry out proper testing of the water supply system and that the quality of the pipes and other project materials was of substandard quality.

(b) Ajibika Irrigation Project

Available records also indicate that contract No. MCG/020/2013-2014 for construction of Ajibika water project was advertised in newspapers on 23 January 2014 and 21 bids were received and evaluated.

However, included in the engineer's estimate of Kshs.92,358,707.96 for the project was one 4WD 3000cc vehicle at a cost of Kshs.5,000,000 which was to be handed over to the County Government on completion of the project. However, it appears the vehicle was not handed over. In addition, no payment vouchers and certificates of completion were made available for audit review.

14.3 Implementation of Agricultural Projects

(a) Mariira Farm Project

Scrutiny of records revealed that during the year under review, the County Government spent an amount of Kshs.57,000,000 in running the operations of the Mariira Farm Dairy Section against revenue of Kshs.4,437,500 on sale of animals, bull calves and milk resulting in a deficit of Kshs.52,562,500.00. The policy of the County Government was to sell the animals at subsidized costs to willing famers which appeared unsustainable in the long run. Further, from the available records, the farm management did not account for three cows worth Kshs.450,000. The farm purchased 184 dairy cows of which 81 were sold, 20 died, and 80 were in the farm leaving 3 unaccounted for. In addition, the budget for the year had a project allocation of Kshs.4,000,000, while the actual expenditure for the project amounted to Kshs.57,000,000 resulting in an over expenditure of Kshs.53,000,000 or 1325% which was not approved.

(b) Idle Silos Constructed at Mariira Breeding Centre

A contractor was paid Kshs.3,502,240.00 vide payment voucher No. 13556 dated 3 November 2014 for the construction of 5 fodder silos at a cost of Kshs.693,448 each at Mariira breeding center. An inspection carried out at the site revealed that although the construction was done, the fodder silos have not been utilized and were covered with grasses and overgrown weeds. No reason was given for not utilizing the silos which may lead to wastage of public funds.

14.4 Implementation of Road Projects

The County Government incurred a total of Kshs.539,003,337 on construction of roads during the 2014/2015 financial year. However, physical verification of some of the road works implemented by the County Government that the revealed drainages were poorly done and could attract repeat costs in the near future. Further, majority of other roads could not be physically verified. The performance and existence of the said works could therefore not be confirmed.

15.0 Imprudent Payments for Exams Printing and Motivation Tokens to Various Schools

The County Government made payments amounting to Kshs.14,714,000 comprising of Kshs.10,082,000 made to various stationers and printers for printing of primary school examination and a further Kshs.3,900,000 as motivation token to teachers, and Kshs.1,722,000 for purchase of literature books. However, no policy on education was availed to support the payments considering that primary and secondary education is not a devolved function. Further, no documentary evidence like receipts, invoices and signed acknowledgement of delivery to the beneficiary schools was provided to prove that the payment was for the intended purpose.

16.0 Cash and Bank

16.1 Irregular Cash Transfers from Both Recurrent and Development Accounts to other Operational Accounts

A review of the County Government G-Pay report and bank statements revealed that a total of Kshs.901,897,121.25 was transferred from the County's recurrent and development accounts to operational accounts held at various commercial banks from which major payments to suppliers were made.

This is contrary to the provisions of Transitional Authority guidelines which provide that other than the recurrent and development account, standing imprest account is meant for small value transactions involving office running expenses. It is not clear why these payments could not be made from both the recurrent and development accounts and through G pay.

16.2 Unsupported Transfers to the County Revenue Collection Account

The County Government made transfers totaling Kshs.2,500,000 to its County Revenue Collection account No. 1140745859 in two instalments on 19 June 2015. The first transfer of Kshs.2,000,000 from operation account No. 011441422417800 was made vide cheque No. 4330 and payment voucher No.17187 while the second transfer was made vide cheque No. 4091 for Kshs.500,000 from the County's Standing Imprest account No. 1141114828. The stated transfers were not of revenue nature and it may have been used to conceal direct use of revenue before banking. Reasons for making these transfers into the revenue collection account were not provided.

16.3 Bank Overdraft

Records maintained by the County Government indicate that a bank overdraft of Kshs.199,102,482 was outstanding as at 30 June 2015. The funds borrowed were held at Kenya Commercial Bank operations account no.1140746464. The County Government was authorized by the County Assembly to obtain a bank overdraft of up to a maximum of Kshs.200 million (equivalent to 5% of the most recent audited revenues). The loan was, however, borrowed without authority of the National Treasury contrary to Article 212 of the Constitution.

In addition an amount of Kshs.33,000,000 was transferred from CBK Development account No. 1000170988 to KCB operation account no. 1140746464 on 29 May 2015 as part repayment of the overdraft. However, the amount transferred was not disclosed by the County Government in its financial statements. The development funds also appear to have

been transferred to pay for recurrent expenditure contrary to Section 154(1)(b) of the Public Finance Management Act, 2012 which prohibits an accounting officer from transferring amount appropriated for capital expenditure to pay recurrent items.

Under the circumstances, it has not been possible to confirm that the proceeds from bank overdraft was regularly obtained and utilized for the intended purpose.

17.0 Pending Bills/Commitments

The County Government disclosed pending bills as at 30 June 2015 amounted to Kshs.1,043,559,735 comprising of Kshs.61,345,459.00 relating to construction of buildings, Kshs.548,601,359.00 for construction of civil works, Kshs.312,502,216.00 for supply of goods and Kshs.121,110,701.00 for supply of services. However, the figure of Kshs.1,043,559,735 differs with Kshs.2,477,987,470.00 indicated as outstanding as per letter Ref: MCG/FIN/1 VOL4/116 dated 14th August 2015 signed by Acting Chief Officer-Finance. The variance of Kshs.1,434,427,735.00 has not been explained.

Further, no documentary evidence including invoices and LPOs, contract agreements and commitments in IFMIS system were availed to confirm the accuracy of the figure. The County Government has also not explained the source of funds to pay bills given the fact that an amount of Kshs.259,465,102 held in bank accounts as at 30 June 2015 is insufficient to defray the debt.

18.0 Human Resource

18.1 Irregular Engagement of Casual Employees

Records made available for audit revealed that the County Government spent a total of Kshs.113,615,509.35 on casual wages during the financial year 2014/2015. It was noted that most of the casual workers were working at the sub-counties and hospitals. However, no evidence was provided to confirm that the County Public Service Board regulated their engagement contrary to the provisions of Section 74 of the County Government Act, 2012. In addition, the human resource department did not maintain records of contracts for the employees. Further, the management did not provide evidence of the type of contracts, nature of work and acknowledgement of wages paid.
In the circumstance the propriety of the expenditure of Kshs.113,615,509.35 could not be ascertained.

18.2 Payroll Audit

(i) Double Payment of Salary Arrears

Analysis of the manual payroll data revealed two members of staff were paid the same amount of salary arrears twice during the year amounting to Kshs.84,785.20 and Kshs.42,055.60 respectively in the months of May and June 2015. No pay change advice or explanation was provided for the payment.

(ii) Irregular Payment of Double Salary through Integrated Payroll and Personal Database (IPPD)

Analysis of IPPD data revealed that nine (9) employees with multiple bank account numbers received multiple salaries through different account numbers. The irregularity led to additional

salary to the employees amounting to Kshs.2,486,277.35 between the period July 2014 to 30 June 2015.

(iii) Irregular Promotions

Promotions are supposed to be systematic from one job group to another. However, during the year under audit, the County Government made three (3) promotions which resulted in the affected staff moving by more than one grade as follows:-

Payroll No.	ID No.	Name	Job Group 2015	Job Group 2014
1997002938	10094521	Dr. Micheal Makau Kyalo	P	N
20010002178	20742271	Mr.Simon Nduati Maina	J	G
19990024809	21966777	Mrs. Grace Wanjiru Wabocha	M	J

(iv) Logical Access rights

Scrutiny of a list of IPPD users and their roles revealed that the system manager had been granted both staff register and payroll roles, in addition to the system manager role thus violating the principle of segregation of duties. The payroll manager, therefore, has rights to introduce somebody in the system, pay and delete the same.

No action appears to have been taken by the management to remedy the possible loss of public funds due to the irregularities noted.

19.0 Unaccounted for Imprests

Expenditure documents maintained at the County Government headquarters revealed that imprests amounting to Kshs.8,043,580 issued to various officers during the financial year 2014/2015 had not been accounted for although no such disclosure was made. The amount advanced was expensed without relevant supporting documents including bus/work tickets receipts and as a result, the accountability of Kshs.8,043,580 paid to various officers could not be confirmed.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

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

Nairobi

06 October 2016