REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF COUNTY GOVERNMENT OF MERU

FOR THE YEAR ENDED 30 JUNE 2015

REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON COUNTY GOVERNMENT OF MERU FOR THE YEAR ENDED 30 JUNE 2015

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of County Government of Meru set out on pages 7 to 46, which comprise the statement of assets and liabilities as at 30 June 2015, and the statement of receipts and payments, statement of cash flows, statement of appropriation for the period 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. 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.

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 the 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.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my adverse audit opinion.

Basis for Adverse Opinion

1.0 Accuracy and Completeness of the Financial Statements

1.1 Unexplained variance – Ledgers/Financial Statements

A comparison of the actual expenditure in the financial statements and ledgers/schedules reflected net variance of Kshs.478,318,700 as follows;

Item	Financial Statements Kshs	Ledger / Schedules Kshs	Variance Kshs
Recurrent Expenditure	5,118,364,923	3,985,250,122	1,133,114,801
Development Expenditure	1,613,298,155	2,268,194,256	(654,896,101)
Total	**6,731,663,078**	**6,253,444,378**	**478,218,700**

No explanation has been given for the unexplained and unreconciled net difference of Kshs. 478,218,700 as at 30 June 2015

1.2 Opening Balances

A comparison of the opening balances in the financial statements under review with the closing balances in the previous year's certified financial statements reflected variances totaling Kshs.152,549,242 on one (1) item as follows;

Item	Closing Balance 2013/2014) Amount (Kshs)	Opening Balance 2014/2015 Amount (Kshs)	Variance Amount (Kshs)
Non- Current Assets	458,799,252	611,348.494	152,549,242

In view of the foregoing, the accuracy, completeness and reliability of the County Governments financial statements as at 30 June 2015 could not be ascertained.

1.3 Other Receipts

The financial statements reflects other receipts of Kshs.600,226,215 as at 30 June 2015 However, no revenue raising measures were submitted to the Assembly for approval as required under section 132 (1) and 133 of the public finance management Act 2012. In the circumstances, all fee and charges levied during the year under review were un

procedural. Similarly, ledgers and supporting schedules for the Kshs.600,226,215 receipts were not made available for audit review.

In view of the foregoing, the accuracy and legality of the Kshs.600,226,215 in respect to other receipts could not be ascertained as at 30 June 2015.

1.4 Total Payments

The statement of receipts and payments and budget execution – combined summary (Recurrent and Development) reflects total payments of Kshs.6,873,114,288 and Kshs.6,731,663,078 respectively, resulting in un-explained and unreconciled difference of Kshs.141,451,160.

Consequently, the accuracy of total payments could not be confirmed as at 30 June 2015.

1.5 Accounts Receivables

The statements of assets reflects accounts receivables balance of Kshs.27,183,391 being the outstanding imprest as at 30 June 2015. However the respective supporting documents were not made available for audit review. Further, the notes to the financial statements did not disclose outstanding rents and rates which had an opening balances of Kshs.16,936,214 under debtors / receivables as required under the cash basis of accounts. No explanation was given for failure to disclose the outstanding amounts.

Consequently, the accuracy of the accounts receivables including the accountability and or recoverability of the imprests could not be ascertained as at 30 June 2015.

1.6 Fixed Assets

The unreferenced annex to the financial statements indicates historical cost of fixed assets acquired during the year under review of Kshs.1,552,277,913 whereas the statement of receipt and payments reflects acquired assets of Kshs.1,556,333,412 resulting in an unexplained difference of Kshs.4,055,499. Further, the annex on summary of assets reflects an assets increase of Kshs.940,929,418 from Kshs.611,348,494 as at 30 June 2014 to Kshs.1,552,277,912 as at 30 June 2015 resulting in un explained and unreconciled difference of Kshs. 615,403. In addition, the assets acquired in the previous year together with those inherited from the defunct local authorities of Meru County have not been valued and disclosed in the financial statements.

In the circumstances, the accuracy, completeness, existence and security of the fixed assets for the County could not be confirmed as at 30 June 2015.

2.0 Unsupported Payments

2.1 Other Payments

The statement of receipts and payments for the year ended 30 June 2015 reflects an amount of Kshs.1,079,898,956 in respect of other payments. However, although the

amount is reflected in Note 21 to the financial statements as "other expenses", it was not supported by any source document, ledger or schedule.

Consequently, the accuracy of the other payments/expenses of Kshs.1,079,898,956 could not be confirmed as at 30 June 2015

2.2 Transfers to Health Facilities (DANIDA) and Capital Grants to Government Agencies and Other Levels of Government

The financial statements reflects Transfers to Other Government Entities balance of Kshs.199,588,294 as 30 June 2015 which included an unsupported expenditure in respect to Transfers to Health Facilities (DANIDA) and Capital Grants to Government Agencies and Other Levels of Government amounting to Kshs. 8,400,000 and Kshs.53,385,946 respectively both totaling to Kshs.71,785,946.

In the circumstances it was not possible to ascertain the propriety of the Kshs.71,785,946 including whether it was expended as appropriated.

3.0 Cash and Cash Equivalents

3.1 Unreconciled Cash and Cash Equivalents Balance

The statement of assets reflects a cash and cash equivalents balance of Kshs.996,516,658 as at 30 June 2015 while the statement of cash flows shows a balance of Kshs.982,546,805 resulting in an un-explained variance of Kshs.13,969,853.

3.2 Stale Cheques

Further, the cash and cash equivalents balance of Kshs.996, 516,658 included a debit balance of Kshs.649,717 in respect to Imprest Account No.1140746480. However, the imprest balance included stale cheques of Kshs.24,987,353 which had not been written back to the cash book as at 30 June 2015.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.996, 516,658 as at 30 June 2015 could not be ascertained

4.0 Pending bills

An unreferenced schedule attached to the financial statements reflects pending bills of Kshs.1,823,511,367.30 as at 30 June 2015. However, supporting documents including invoices, contracts, inspection and acceptance certificates and payment vouchers were not provided for audit review. Further, detailed creditors' ledger showing the movement of creditors' account including the date the bills were incurred and the due dates were not disclosed or made available for audit verification.

In addition, County Assembly pending bills totaling to Kshs.67,671,305 comprising of development and recurrent of Kshs.64,069,927 and Kshs.3,601,378 respectively were not included as part of the pending bills of Kshs.1,823,511,368 disclosed in annex 1.

In view of the foregoing, the source, accuracy, completeness, authenticity and existence of the pending bills balance of Kshs.1,823,511,367 as at 30 June 2015 could not be ascertained.

5.0 Irregular Procurement of Insurance Services

5.1 Medical Insurance Cover

During the financial year 2013/2014, the County Government contracted an Insurance firm to offer enhanced medical insurance cover at a contract sum of Kshs.31,646,132. In 2014/2015, the contract was renewed and the firm was paid Kshs.139,872,398. The increase of Kshs.108,226,266 or 342%was attributed to increase of County staff. Although, the original contract provided for a renewal for up to three (3) years, the County should have used the open tender method to procure the medical insurance a new as the contract variation of 342% far exceeded the 25% variation allowed by Section 31(e) of the Public Procurement and Disposal Act, 2005 and the article 227 of the Constitution. Further, the item had a budget of Kshs.15,027,898 with an actual expenditure was Kshs.139,872,398 resulting in an unbudgeted expenditure of Kshs.124,844,500.

In view of the foregoing, the propriety of Kshs.139,872,398 insurance expenditure could not be ascertained as at 30 June 2015.

5.2 Motor Insurance Cover

During the financial year 2013/2014, the County contracted an Insurance firm to offer motor and non-motor insurance services at a contract sum of Kshs.1,425,081. In 2014/2015, the County renewed the contract but revised the contract sum to Kshs.4,728,260 which was an increase of Kshs.3,303,179 (231.8%) of the original contract. This was contrary to Section 31 (e) of the Public Procurement and Disposal Act, 2005which only allows a contract variation of 25%.

Further, although the County renewed the motor insurance policies (Premiums) totaling Kshs.13,440,772 during the year, no valuation reports were made available for audit review. In addition, the Kshs.13, 440,772 exceeded the contract sum of Kshs.4, 728,260 by an unexplained Kshs.8, 712,512.

Records made available and examined showed Kshs.18,654,799 unpaid premiums in respect to the County's motor vehicles. This resulted in the impounding of the County's vehicles in different garages over non-payment of insurance premiums and excess payments to the insurance firms after repairing them following accidents implying that the vehicles were not insured.

No explanation was given as to why the outstanding premiums were not cleared taking into account that the County had an annual insurance budget of over Ksh.20,000,000.

As a result, the propriety of the total insurance cost of Kshs.153,313,170 as at 30 June 2015 could not be confirmed as well as the impounding costs and excess amounts paid.

6.0 Irregular Procurements of Works and Services

6.1 Direct Procurement of Leasing of County Offices

Note 13 of the notes to the financial statements reflects a rentals of produced assets balance of Kshs.18,366,870.00 which included Kshs.10,524,738(57%)in respect to leasing of County offices. However, the contract agreement indicated a tenancy of four (4) years effective from 1 September, 2013 with a monthly rent of Kshs.518,480. Further, the tenancy was not competitively acquired in line with Section 74(2) (a) and (b) including Section 74 (3) (a) (b) and (c) of the Public Procurement and Disposal Act,2005.

In the circumstances, the County Government did not get value for money in the Kshs.10,524,738 leasing expenditure as at 30 June 2015.

6.2 Procurement of Goods, Works and Services

During the financial year under review, the County spent Kshs.8,903,062 to hire a dozer and procure computers as follows;

Pv. No	Date	Payee	Details	Maximum Value (Kshs.)	Amount Paid (Kshs.)	Excess (Kshs.)
9297	28/6/15	Stegma Construction Co. of Box 3083-60200 Meru	hire of dozer	2,000,000	4,396,062	2,396,062
10588	30/6/15	Kitutu Supplies Ltd of Box 47293 Meru	Supply of computers & printers	4,000,000	4,507,000	507,000
		Total		**6,000,000**	**8,903,062**	**2,903,062**

However, the County used quotations instead of open tender in acquiring the goods, works and services even though their prices were beyond the threshold set up under Legal Notice 106 of 18 June 2013.

In the circumstance, the County Government breached the threshold matrix set by Legal notice No.106 of 18 June, 2013.

6.3 Direct Procurement of Publicity Services

During the financial year under review, the County Government paid a total of Kshs.15,140,664 to two companies in respect to advertising/publicity. However, verification of documents from the two companies revealed that both of them used similar invoices and address implying that there was a relationship between the two companies. Further, no documents were made available to show that the procurement of the service was fair, equitable, transparent, competitive and cost effective as required by Section 227 of the Constitution of Kenya.

In view of the forgoing, the propriety of the expenditure of Kshs.15,140,664 could not be confirmed as at 30 June 2015.

6.4 Procurement of Curtains and Nets for Meru Teaching and Referral Hospital

The County awarded a contract for supply of nets and curtains worth Kshs.3,441,240 and Kshs.4,356,000 respectively for Meru Teaching and Referral Hospital. However, although the firm was the lowest bidder, the County used request for quotation method instead of open tender contrary to the threshold matrix set by Legal notice No.106 of 18 June, 2013 which limits request for quotation method to procurements not exceeding Kshs.2,000,000. Further, only curtains were included in the request for quotations and not the nets. It was therefore not possible to ascertain how the County paid Kshs.3,441,240 in respect to nets which were not quoted for.

The request from the user department had no specifications of the curtains in respect to quantity, quality, colour, size and texture. It was therefore not possible to ascertain how the quality/quantity of the supplies were determined and accepted. Out of the 3,300 meters of curtains ordered only 2,944.95 Meters was delivered at Kshs.1,200 per metre resulting to an under delivery of 305.05 meters worth Kshs.366,060.

Further, although the contract was specifically to supply curtains to Meru Teaching and Referral Hospital, the undelivered curtains of 305.05 meters was later supplied to other County Health facilities as curtain materials without any explanations. It was therefore not possible to ascertain why the County Government ordered for excess curtains for its Referral Hospital and whether the supplier refunded labour cost after supplying curtain material instead of curtains

In the circumstances, the propriety of the expenditure of Kshs.7,797,240 could not be confirmed.

6.5 Procurement and Distribution of Emergency Relief Foodstuffs

The County spent Kshs. 30,464,300 under the emergency funds during the financial year to procure relief food to be distributed to the identified needy residents. However, the County used the quotation method contrary to Regulation 31(e) of the Public Procurement and Disposal Act, 2005 which is limited to services not exceeding Kshs.2,000,000 instead of using the open tender procurement method. Further, the ward administrators were allocated food staffs to distribute to the needy residents as follows;

Ward Name	Maize (in bags of 90 Kgs)	Beans (in bags of 50 Kgs)	Cooking oil (in Litres)
Special ward-Tigania East	65	35	50
Mwangathia ward	65	30	50
Athwana ward	65	30	50
Mumui location	20	10	20
Thau location	25	10	20
Nairriri sub-location	20	10	10

Igembe East	68	30	50
Kangeta ward	70	30	-
Imenti South	58	25	100
Municipality ward	59	25	-
Athiru	67	40	-

However, no proper and comprehensive distribution schedules were maintained. A physical review of the food distribution in the wards showed that some distribution schedules did not indicate the beneficiaries identify cards numbers and the quantity of food stuffs given. It was therefore, not possible to confirm whether or not the total amount of foodstuffs issued to the ward administrators was indeed distributed in full to the intended beneficiaries.

In view of the foregoing, the propriety of the expenditure of Kshs.30,464,300.00 could not be confirmed.

6.6 Procurement of Consultancy Services

The County engaged the services of an audit firm to carry out an audit of its records at a contract sum of Kshs.11,498,703. However, Section 226(3) of the Constitution and Section 8 of the Public Audit Act, 2003 gives the mandate of auditing all county governments and government public institutions solely to the Auditor-General. Consequently, the Auditor-General would have done the same task during his normal audits at no charge at all.

Further, there was no budget for the audit service contrary to Section 26(3)(a) of the Public Procurement and Disposals Act, 2005 and the four (4) firms invited to quote were not pre-qualified suppliers for the audit services in the financial year 2014/2015. In addition, instead of using the open tender method, the County used restricted tendering even though the procurement did not meet the criteria set out in Section 73(2) (a)(b) or (c) of the Public Procurement and Disposals Act, 2005. Further, the County invited for quotations from only four (4) firms instead of at least ten (10) firms for the restricted tendering as required by the Public Procurement and Disposal Regulations, 2006. In addition, the consulting report was not made available for audit review.

In view of the foregoing, the expenditure of Kshs.11,498,703 was nugatory and was not a proper charge to public funds.

6.7 Provision of Official Residential House for the Deputy Governor

The County Executive entered into a five (5) year lease agreement with a firm for leasing an official resident for the Deputy Governor. The lease commenced on 1 May, 2013 at a monthly rent of Kshs.40,000 totaling Kshs.480,000 per year. As at 30 June 2015, the County had paid rent totaling Kshs.1,040,000 for the house.

However, the Salaries and Remuneration Commission circular Ref No. SRC/TS/CGOVT/3/61 of August 2013 states that Deputy Governors do not qualify for an official residential house.

In the circumstances, the Kshs.1,040,000 payment on the Deputy Governor's residence is ineligible/irregular expenditure and not a proper charge to public funds.

6.8 Procurement of Street Lighting Works

During the year under review, the County Executive awarded a firm a contract for street lighting of Gakoromone Street to Juakali sheds, Kirukuri Street, Telecom to Hospital, Miraa Street and Mosque Street at a contract sum of Kshs.9,593,165 under tender No MCG.QT/106/2014/2015. However, instead of using the open tender procurement method, the County used quotation method which according to Regulation 31(e) of the Public Procurement and Disposal Act, 2005is limited to services not exceeding Kshs.2,000,000.

As a result, the propriety of the payment and value for money for the Kshs.9,593,165 could not be confirmed as at 30 June 2015.

6.9 Direct Procurement of County Assembly Speaker's Residential House

During the year under review, the Meru County Assembly leased a residential house for the speaker. The valuation report from the Ministry of Lands, Housing and Rural Development vide Ref No.MRU/VAL/Rental Assessment dated 28 January, 2015 valued the furnished house, located on LR No.Nyaki/Kithoka/2387 at Kshs.115,000. However, the letter did not give a description and valuation of the house as to the number of bedrooms, kitchen, living room and other facilities in the house.

Further, the County Assembly paid a sum of Kshs.470,000 to the speaker who is actually the landlord (conflict of interest) as per the contractual agreement through payment voucher No. AB0712 dated 16 February, 2015 at Kshs.80,000 per month for November, December, 2014 and January, 2015 and Kshs.115,000 for February and March, 2015. However, the payments were not supported with invoice(s) or any other documents to validate the payments.

In addition, the evaluation, negotiations, inspection and acceptance of goods, works and services were not done contrary to Public Procurement and Disposal Act, 2005 and Legal Notice No 106 of 18 June, 2013 Regulation 16(1) that requires a procuring entity to establish a tender processing committee in relation to each procurement process for the purposes of carrying out the evaluation of the tenders or proposals, negotiations or inspection and acceptance of goods, works or services.

Under the circumstances, it has not been possible to confirm the authenticity and propriety of the expenditure of Kshs.470, 000 paid to the speaker (landlord).

6.10 Hire of Ward Offices

The County Assembly leased ward offices in the year 2013/2014. However, the contractual agreements were signed by the MCAs as the tenants and the subsequent payments by the County Assembly were paid to them. Since the lease rentals were paid by the County Assembly, the agreement ought to have been made between the landlords and the County Assembly.

Further, the County Assembly paid a total of Kshs.4,777,100 as ward rent for the first and second quarter. Although the rent differed per ward, most of the offices were rented at Kshs.20,000 per month. No valuation was done to support this amount.

In addition, the landlords were not invited to offer office space through expression of interests to the procuring entity (County Assembly) as stipulated in regulation 8 (3) (b) of the Public Procurement and Disposal Regulations, 2006.In the circumstances, it has not been possible to ascertain the propriety of the Kshs. 4,777,100 expenditure as at 30 June 2015.

6.11 Recruitment of County Ward Employees

During the year under review, the County Assembly spent Kshs.34,185,000 to pay salaries to two hundred and seventeen (217) staff to work at the MCAs' ward offices. However, the respective advertisements, shortlisting and interviewing, appointment documents were not made available for audit review. In the circumstances, it has not been possible to ascertain that the expenditure of Kshs.34,185,000 as at 30 June 2015 was a proper charge to public funds.

In view of the foregoing, the propriety and value for money on the total expenditure of Kshs.123,869,234 on the irregular procurements of works and services could not be confirmed as at 30June 2015.

7.0 Non-Presentation of Financial Statements by County Corporations

Note 15 (Transfers to Other Government entities) and Note 21 (Other Expenses) of the notes to the financial statements shows that Kshs.120,073,076 was transferred to the following entities;

Entity	Amount (Kshs.) Transferred	Amount (Kshs) Spent
Meru County Micro Finance Bank	16,843,000	-
Meru County Alcohol Control Board	30,000,000	19,093,600
Meru County Investment and Development Corporation	54,107,051	8,858,536
Micro Finance Youth Programme	7,123,025	-
Meru international Investment Conference	12,000,000	9,270,992
Total	**120,073,076**	**37,223,128**

However, no financial statements were prepared and submitted for audit review by the entities which are independently registered but fully funded by the County Government.

Further, the accountability of the incurred expenditure of Kshs.37,223,128 could not be ascertained in the absence of supporting documents.
In the circumstances, the accuracy and completeness of the County Government financial statements could not be ascertained as at 30 June 2015.

8.0 Non-Collection of Meru County Hotel Rent

On 20June, 2011, the Defunct County Council of Meru Central entered into an agreement with a tenant for renting of Meru County Hotel at a monthly rent of KShs.575,000 with effect from 1 July 2010. However, the tenant had not paid any rent from occupancy date of 1 July 2010 up to 30 June 2015 totaling to Kshs.17,103,000 for the 60 months. Further, the County terminated the renting/lease agreement vide letter Ref:MC/LEG/2014 dated 08 August 2014 with effect from 01 September 2015. No evidence of efforts being made by the County Government to ensure the full outstanding rent is paid by the tenant was seen.

In the circumstances, the recovery of the Kshs.17,103,000 rent arrears as at 30 June 2015 could not be ascertained.

9.0 Members of County Assembly (MCAs') Car Loans

9.1 Car Loan Finance Costs

The financial statements reflect an expenditure of Kshs.55,795,382 in respect of finance costs including loan interest as at 30 June 2015. Documents made available showed that the expenditure was in respect to interest on MCAs' car loan which was shouldered by the County Executive who acted as a guarantor to the loans. However, a letter referenced MC/LCG/010/2015 dated 06 February 2015 from the Office of the Governor Meru County Government states that the beneficiary MCAs were to approach the lender on their own arrangements so that the County's role would only be to deduct the repayment from the beneficiary MCAs' salaries and pay to the lender. Further, circular reference number SRC/TS/WB/3/14 dated 14 February, 2014 from the Salaries and Remuneration Commission states that the car loan and mortgage scheme benefit is subject to availability of funds and any associated costs were to be budgeted for. The County Government of Meru did not have a car loan and mortgage scheme during the year under review and any car loan required by the MCAs were purely personal. The County therefore should not have shouldered interest arising from the personal loans.

In the circumstances, the Kshs.55,795,382 expenditure was not a proper charge to public funds.

9.2 Car Loan Interest Penalty

During the year 2013/2014, the County entered into a contract with a SACCO to issue car loans to members of the County Assembly of Meru. According to the contract, the County Executive was to pay both principal after deducting from the MCAs dues and the interest to the SACCO by 10th of each month. A total of forty one (41) MCAs benefited from the car loans. However, a 5% penalty amounting to Kshs.1,452,742 was paid to the Sacco for failure to pay MCAs car loan interest on timely basis.

Although, Meru County Government alleged that the failure to pay the principal and interest of the MCA car loans in time was occasioned by delay by the Controller of budget in approving disbursements, no evidence was made available for audit review.

In the circumstances, the County got no value for money in the Kshs.1,452,742 expenditure and the security of the car loans could not be ascertained as at 30 June 2015.

10.0 Foreign Travel - East African Chamber of Commerce - Trade Conference in Dallas-Texas-USA

Records made available for audit review showed that approval was granted for five (5) Members of the County Assembly (MCA's) to attend a three (3) days Trade Conference in Dallas – Texas – USA between 2 and 4 October 2014.However, the invited MCAs departed from Nairobi on 2nd and 3rd October 2014 and arrived in the USA on 4th October 2014 which was the final day of the conference. Although, the late departure was attributed to delays in visa processing, the explanation was not found satisfactory as the MCAs could have opted not to travel when they realised that they would not get their visas in good time to attend the conference.

Further, the County Assembly directly procured a company to provide air ticketing for the Trade Conference in Dallas – Texas – U.S.A. contrary to the Public Procurement and Disposal Act, 2005. It was not possible to ascertain that the Company was also the most economical service provider and that the Assembly got value for money in the transaction. Further, the Company was not a pre-qualified supplier to provide air tickets and travel services to the Assembly during the year under review.

In addition, the Company was paid Kshs.1,218,000 vide payment voucher No AB0214 in respect to Nairobi – Dallas return air – tickets for the five (5) Members of the County Assembly (MCAs) at unit price of Kshs.210,000. An amount of Kshs.2,173,500 was again paid to the Company as conference registration fees for the five (5) Members of the County Assembly (MCAs) at ($690) per person per day for 7 days. The alleged registration fees, which had not been disclosed in the invitation letter, was so exorbitant at US$4,830 (US$690x7) or approximately Kshs.483,000 per MCA. No evidence was adduced for audit review to confirm that the Company indeed paid the registration fees to the conference organizers as the delegates arrived in U. S. A. on the last day of the conference.

In view of the foregoing, the propriety of the expenditure totalling Kshs.3,391,500 on foreign travel could not be confirmed as at 30 June 2015.

11.0 Un-procedural Award of Tender on Modernization of County Assembly Chamber and Offices

During the year under review, a Construction Company was awarded a tender NO. MCA / ONT/018/2014 – 2015 to modernize County Assembly Chambers and Office at a contract sum of Kshs.91,345,788 being the lowest bidder.

The Contract value of Kshs.91,345,788 was varied on 20 February 2015 by Kshs.7,870,600 to stand at Kshs.99,216,388 and this was 8.6% of the original contract price. Although the County Assembly was within the allowed thresh-hold, the financial appraisal No.1 cites un-quantified omission of offsite parking, services installations and furniture for Chamber and Gallery in the variation cost, implying that the cost was likely to go up.

Further, during the evaluation of interested bidders on redesigning of County Assembly Chamber and renovation of offices, one bidder scored the highest marks out of the five (5) bidders who had expressed their interest for redesign works and was awarded the contract.

Available contractual agreements however indicate that the contractor charged 14.5% of the civil works sum of Kshs.91,345,788 as consultancy fee which however exceeded the Architects and Quantity surveyors fee rate of 14% by 0.5 as enshrined in Section 2 c (a) (b) (c) and (e) of Cap 525 thus resulting in an over charge of Kshs. 456,729 as follows;

Rate charged	14.5% of Kshs.91,345,788	Kshs.13,245,139
Allowed rate	14% of Kshs.91,345,788	Kshs.12,788,410
Overcharge		**Kshs.456,729**

The project started on 25 August 2014 and was expected to be completed by 11 August 2015. However, as at the time of this audit – November 2015, the project had not yet been completed and the Assembly did not avail extension requests, site meeting minutes, consultant comments and tender award minutes to justify the extended period. An audit review of the works showed that the project was about 70% complete.

In the circumstances, the Kshs.456,729 was not a proper charge to public funds and project completion remains doubtful.

12.0 Unrecovered Taxes Paid for MCAs and Staff

During the year under review, a total of Kshs.5,760,000 was paid to Members of the County Assembly and the Clerk as airtime allowances. The Assembly also paid the resultant tax due totaling to Kshs.1,728,000 or 30% to Kenya Revenue Authority on behalf of the MCAs and the Clerk. However, the same amount was not recovered from the individuals monthly salaries.

In view of the foregoing, the propriety of the expenditure of Kshs.1,728,000 as at 30 June 2015 could not be confirmed.

Adverse Opinion

In my opinion, because of the significance of the matters described in the Basis for Adverse Opinion paragraph, the financial statements do not present fairly, the financial position of County Government of Meru as at 30 June 2015, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and do not comply with the Public Finance Management Act, 2012 and the County Government Act, 2012.

Other Matter

1.0 Budgetary Control and Performance

1.1 County Executive - Expenditure

During the year under review, Meru County Government prepared a budget of Kshs.7,744,751,537 comprising of both recurrent and development expenditures of Kshs.4,383,339,509 and Kshs.3,361,412,028 respectively. However only Kshs.5,118,364,923 and Kshs.1,613,398,155 was spent in respect to recurrent and development respectively as summarized below;

Item	Budget (Kshs.)	Actual (Kshs.)	Variance (Kshs.)
Recurrent	4,383,339,509	5,118,364,923	(735,025,414)
Development	3,361,412,028	1,613,398,155	1,748,013,873
Total	**7,744,751,537**	**6,731,663,078**	**1,012,988,459**

Detailed analysis in appendices I, II and III.

No supplementary budget in respect to the recurrent over-expenditure of Kshs.735,025,414 was made available for audit review. Further, the County underspent by Kshs.1,748,013,873 in development.

In the circumstances, the development under-expenditure of Kshs.1,748,013,873 and recurrent over-expenditure of Kshs.735,025,414 impacted negatively on the expected services by the County residents.

1.2 County Assembly

The County Assembly received Kshs. 665,839,565 from the National Government as transfer from the County Treasury against an expected budget of Kshs.756,015,051 resulting in a shortfall of Kshs.90,175,486. No explanation has been given for the failure to receive Kshs.90,175,486 from the County Treasury. This may distort Assembly operations.

1.3 Revenue Analysis

The projected revenue for the period was Kshs.7,744,751,537 but only Kshs.7,688,298,372 was realized resulting in a revenue short fall of Kshs.48,842,468 as follows:

Item	Budget (Kshs.)	Actual (Kshs.)	Variance (Kshs.)
Equitable Share	5,665,865,236	5,665,865,236	-
Conditional Funding for Level 5 Hospital	64,312,673	64,312,673	-
DANIDA Facility Improvement Fund	18,410,000	18,410,000	-
County Own Revenue	588,038,730	420,336,846	(167,701,884)
FY2013/14 Roll Over	1,165,124,898	1,165,124,898	-
Refund from Exchequer	243,000,000	181,970,047	(61,029,953)
FIF		120,518,687	120,518,687
Transfer From Other Government Entities		59,370,682	59,370,682
Total	**7,744,751,537**	**7,695,909,069**	**(48,842,468)**

Out of the budgeted local revenue of Kshs.588,038,730 only, Kshs. 420,336,846 was realized resulting in revenue shortfall of Kshs.167,701,884 (28.5%). (See Appendix IV)

In the circumstances, the overall revenue short fall of Kshs. 48,842,468 together with the recurrent over expenditure of Kshs.735,025,414 and the development under expenditure of Kshs.1,748,013,873 renders the entire budget unrealistic resulting in undelivered services to the County residents

2.0 Non Establishment of an Internal Audit Committee

The County did not have an audit committee in place, contrary to Section 155 (5) of the Public Finance Management Act, 2012 that states that the County Government shall establish an internal audit committee whose composition and functions shall be as prescribed by the regulations.

Further, the internal audit unit did not have an Audit Charter which could have defined the purposes, the authority and responsibility of the internal audit function.

In addition, the County Assembly records including cash books, payment vouchers, imprest registers, imprest surrender documents and payrolls were not audited or post-examined by the internal audit unit.

As a result, control system was weak and the risk to public resources entrusted to the County was appropriately not mitigated.

3.0 Information, Communication Technology (ICT) Environment

During the year under review, the County spent Kshs.4,055,500 on ICT equipment. However no approved ICT policy to enable the management of business processes more effective and efficient in delivery of services to the public was made available for audit review.

Consequently, the security of ICT equipment including data confidentiality, integrity and availability could not be ascertained as at 30 June 2015.

4.0 Late Transfer of County Assembly Un spent Funds to County Revenue Fund Account

A credit balance of Kshs.35,594,677 appearing in the County Assembly bank account No. 0140261449618 as at 30 June 2015 was not transferred to the County Revenue Fund Account as at the end of the financial year 2014/2015 contrary to Section 136(2) of the Public Finance Management Act, 2012. The transfer was made two months later in August 2015. Although the Assembly indicated that the transfer period was extended by the National Treasury, no documentary evidence of the extension was made available for audit verification.

My opinion is not qualified in respect of these matters.

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

Nairobi

31 August 2016