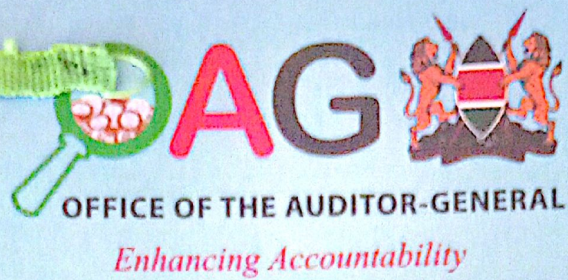


REPUBLIC OF KENYA



REPORT

OF

THE AUDITOR-GENERAL

ON

COUNTY EXECUTIVE OF MURANG'A

FOR THE YEAR ENDED
30 JUNE, 2024

REPORT OF THE AUDITOR-GENERAL ON COUNTY EXECUTIVE OF MURANG'A FOR THE YEAR ENDED 30 JUNE, 2024

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements;
- B. Report on Lawfulness and Effectiveness in the Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure the Government achieves value for money and that such funds are applied for the intended purpose; and,
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, risk management environment and internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

A Qualified Opinion is issued when the Auditor-General concludes that, except for material misstatements noted, the financial statements are fairly presented in accordance with the applicable financial reporting framework. The Report on Financial Statements should be read together with the Report on Lawfulness and Effectiveness in the Use of Public Resources, and the Report on Effectiveness of Internal Controls, Risk Management and Governance.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012, and the Public Audit Act, 2015. The three parts of the report when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of County Executive of Murang'a set out on pages 1 to 51, which comprise the statement of assets and liabilities as at

Report of the Auditor-General on County Executive of Murang'a for the year ended 30 June, 2024

30 June, 2024 and the statement of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts 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 Murang'a as at 30 June, 2024 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 County Government Act, 2012 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Variance Between the Statement of Receipts and Payments and Integrated Financial Management Information System (IFMIS) Votebook

The statement of receipts and payments reflects total payments of Kshs.6,468,547,821. However, a comparison of the statement amounts with the integrated financial management information system (IFMIS) vote book report revealed variances as tabulated below:

Expenditure	Financial Statements (Kshs.)	IFMIS Votebook (Kshs.)	Variance (Kshs.)
Compensation of Employees	3,685,639,768	4,019,135,874	(333,496,106)
Use of Goods and Services	1,248,671,814	1,553,108,643	(304,436,829)
Subsidies	4,000,000	4,000,000	-
Transfer to Other Government Entities and Other Grants and Transfers	891,797,929	1,053,437,952	161,640,023
Social Security Benefits	79,592,836	96,832,854	(17,240,018)
Acquisition of Assets	543,415,003	1,059,077,764	(515,662,761)
Other Payments	15,430,471	26,990,000	(11,559,529)

In the circumstances, the accuracy and completeness of the respective component amounts reflected in the statement of receipts and payments could not be confirmed.

2. Unreconciled Pending Bills Records

The financial statements under Note 1 and Note 2 on other important disclosures and Annexes 2 and 3 reflect pending bills totalling Kshs.1,342,502,610 as at 30 June, 2024, comprising of pending accounts payable balance of Kshs.412,257,670 and pending staff payables of Kshs.930,244,940. However, available records revealed Kshs.397,460,619 and Kshs.930,244,940 as pending accounts payables and pending staff payables

respectively, both totalling Kshs.1,327,705,559 resulting in a variance of Kshs.14,797,051.

Further, it was also noted that annex 2 and annex 3 to the financial statements did not disclose detailed analysis of individual pending bills as prescribed by reporting template issued by the Public Sector Accounting Standards Board.

In the circumstances, the validity, accuracy and completeness of the pending bills amount of Kshs.1,342,502,610 could not be confirmed.

3. Unsupported Expenditure on Hospitality, Supplies and Services

The statement of receipts and payments and as disclosed in Note 4 to the financial statements reflects Kshs.1,248,671,814 in respect to use of goods and services which includes Kshs.22,617,007 in respect of hospitality supplies and services which further includes payments totalling Kshs.631,884 for provision of catering services and facilitation for annual internal audit seminar. However, Management did not provide supporting documents including requisitions, invoices, evidence of travel and attendance register to support the payments.

In the circumstances, the accuracy and validity of the hospitality expenditure amount of Kshs.631,884 could not be confirmed.

The audit was conducted in accordance with International Standards for Supreme Audit Institutions (ISSAIs). I am independent of the County Executive of Murang'a Management in accordance with ISSAI 130 on the 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.

Emphasis of Matter

1.0 Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects total final receipts budget and actual on comparable basis of Kshs.9,515,657,013 and Kshs.6,783,549,529 respectively, resulting to an under-funding of Kshs.2,732,107,484 or 29% of the budget.

In the circumstances, the underfunding may have constrained execution of planned activities and delivery of services to the public.

2.0 Pending Bills

The financial statements reflect Kshs.412,257,670 and Kshs.930,244,940 in respect to pending bills both totalling Kshs.1,342,502,610 as at 30 June, 2024 as disclosed in Other Important Disclosures Notes 1 and 2 and as also disclosed in Annexes 2 and 3. The amount includes Kshs.448,144,408 in respect to pending bills from the previous year's dating back to the financial year 2015-2016. The management did not provide explanation why the accumulated pending bills were not prioritized contrary to Regulation 41(2) of the Public Finance Management (County Governments) Regulations, 2015 which states that

debt service payments shall be a first charge on the county revenue fund and the accounting officer shall ensure this is done to the extent possible that the county government does not default on debt obligations.

My opinion is not modified in respect of these matters.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, 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 Information

The Management is responsible for the Other Information set out on page iii to xxv, which comprise of Key Entity Information and Management, Governance statement, Foreword by the CEM Finance and Economic Planning, Statement of Performance Against Predetermined Objectives, Environmental and Sustainability Reporting and Statement of Management responsibilities. The Other Information does not include the financial statements and my audit report thereon.

In connection with my audit on the County Executive's financial statements, my responsibility is to read the other information and in doing so, consider whether the Other Information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work I have performed, I conclude that there is a material misstatement of this Other Information, I am required to report that fact. I have nothing to report in this regard.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the effect of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in the 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 Compensation of Employees

1.1 Failure to Comply with Staff Establishment

Analysis of the County Executive's approved staff establishment revealed an excess of seventy-seven (77) staff who were not in the approved staff establishment. This is contrary to Paragraph A.13 of the County Public Service Human Resource Manual, 2013 which highlights the responsibilities of the County Public Service Board that includes establishing and abolishing offices in the county public service and to facilitate the

development of coherent, integrated human resource planning and budgeting for personnel emoluments in counties.

In the circumstances, Management was in breach of County Public Service Human Resource Guidelines.

1.2 Non-Adherence to the Law on Staff Ethnic Diversity

An analysis of the staff ethnicity from the records provided revealed that 93% of employees of the County Executive were from the same ethnic community contrary to Section 7(2) of the National Cohesion and Integration Act, 2008 which states that which provides that no public establishment shall have more than one third of its staff from the same ethnic community. In addition, during the year, the County Executive employed thirty-nine (39) staff members. However, analysis of the records provided revealed that 87.18% of the employees recruited were from the dominant ethnic community. This is contrary to Section 65(1)(e) of the County Government Act, 2012 which requires that at least 30% of vacant posts at the entry level are filled by candidates who are not from the dominant ethnic community.

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

1.3 Non-Adherence to the One-Third Basic Salary Rule

Analysis of the County Executive payroll for the month of June, 2024 revealed that five hundred and seventy-one (571) employees were drawing net salary of less than one third of their basic salary contrary to Section 19(3) of the Employment Act, 2007 which requires that the total amount of all deductions which may be made by an employer from the wages of his employee at any one time shall not exceed two-thirds of the basic pay contrary to Section 19 (3) of Employment Act, 2007.

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

1.4 Failure to Comply with Fiscal Responsibility Principles on Wage Bill

The statement of receipts and payments and as disclosed in Note 3 to the financial statements reflects Kshs.3,685,639,768 in respect to compensation of employees, which represents fifty-four (54%) percent of the total county government revenue of Kshs.6,783,549,529. This is contrary to Regulation 25 (1) (b) of the Public Finance Management (County Governments) Regulations, 2015 which states that the county government's expenditure on wages and benefits for its public officers shall not exceed the thirty-five (35%) percent of the county government's total revenue.

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

2.0 Failure to Adhere to Fiscal Responsibility Principles in Budget Allocation to the County Assembly

Review of the County Executive's budget revealed that Kshs.892,709,033 was allocated to Murang'a County Assembly. This allocation was equivalent to 8.58% of the total county revenue budget for the year amounting to kshs.10,408,366,046. This was contrary to Regulation 25(1)(f) of the Public Finance Management (County Governments)

Regulations, 2015 which states that the approved expenditures of a county assembly shall not exceed seven percent (7%) of the total revenues of the County Executive or twice the personnel emoluments of that county assembly, whichever is lower.

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

3.0 Irregularity on Imprest Management

The statement of assets and liabilities and as disclosed under Note 14 to the financial statements reflects Kshs.2,794,575 in respect of outstanding imprest and advances as at 30 June, 2024. The amount represents unsurrendered imprest issued to various officers some dating back to September, 2023. It was not clear why the respective officers did not account for the imprest or why the employer did not institute recovery from the officers. This is contrary to Regulation 93(5) of the Public Finance Management (County Governments) Regulations, 2015 which states that a holder of a temporary imprest shall account or surrender the imprest within seven (7) working days after returning to duty station.

Further, Management failed to operationalize the imprest management module in the Integrated Financial Management Information System (IFMIS) and hence failed to enforce the use of system in the management of imprest.

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

4.0 Construction of a Septic Tank at Maragua Level 4 Hospital

The statement of receipts and payments and as disclosed in Note 9 to the financial statements reflects Kshs.543,415,003 in respect of acquisition of assets which includes Kshs.294,325,169 in respect of construction of civil works which further includes an amount of Kshs.1,886,520 for construction of a 200 persons capacity septic tank at Maragua hospital. However, a physical verification in the month of September, 2024 revealed that the newly constructed septic tank was overflowing and the waste was spreading to the surroundings resulting to a health hazard. Further, due to poor workmanship, the top surface of the septic tank had visible openings and was already worn out. This is contrary to Section 150(3) of the Public Procurement and Asset Disposal Act, 2015 which stipulates that technical department or professionals engaged to work on behalf of the accounting officer shall be responsible for confirming that the right quality and quantity of goods, works or services have been delivered and issue a certificate to the recipient accounting officer.

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

5.0 Project Complete but Not in Use - Mabae Dispensary

The statement of receipts and payments and as disclosed in Note 9 to the financial statements reflects Kshs.543,415,003 in respect of acquisition of assets which includes Kshs.6,518,919 in respect to refurbishment of buildings which further includes an amount of Kshs.1,839,222 used for renovation of Mabae dispensary. However, a site visit in the month of September, 2024 revealed that the project was complete but not in use. The renovated building seemed abandoned, and the Management did not provide explanation

on why the building was not in use after spending public funds for renovation. This is contrary to Section 149 (1) and (2) (b) of the Public Finance Management Act, 2012 which states that, an accounting officer is accountable to the county assembly for ensuring that the resources of the entity for which the officer is designated are used in a way that is lawful and authorized; and effective, efficient, economical and transparent.

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

6.0 Failure to Remit Balances from ASDSP II Accounts to National Programme Account

Records available revealed that as at June, 2024, Murang'a County Executive had two bank accounts related to Agricultural Development Support Programme Phase II (ASDSP II) with Kshs.5,569,290 and Kshs.177 balances respectively. As per a letter dated 24 June, 2024, the bank accounts were supposed to be closed and bank balances transferred to the National programme Bank account to allow for implementation of next phase of the programme. However, the Management did not provide evidence of transfer of the balances to the National Programme Bank account and closure of the said accounts. This is contrary to Circular JAS/PROJECTS/3/VOL.VII/071 from Joint Agricultural Sector Consultation and Cooperation Mechanism dated 19 June, 2024 which required that all ASDSP II bank Accounts held by the Counties to be closed immediately and all balances remitted to the National programme accounts for action.

In the circumstances, Management was in breach of the project management guidelines.

7.0 Effectiveness in Implementation of Audit Recommendation

Management did not provide any evidence in form of reports on the progress made in implementing prior year auditor's management letter recommendations, and recommendations of oversight committees of the Senate and the County Assembly on the Report of the Auditor-General. Further, there were no explanations in writing to Parliament on why the report has not been acted upon contrary to Section (31)(1) and (53)(1) of Public Audit Act, 2015 which require the accounting officer to take relevant steps in implementing the audit recommendations.

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

The audit was conducted in accordance with ISSAI 3000 and ISSAI 4000. The standards require 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 comply 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 effects of the matter 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 governance were not effective.

Basis for Conclusion

Lack of Asset Disposal Plan

The Management did not provide an approved Assets Disposal Plan contrary to Regulation 176 (1) of Public Procurement and Asset Disposal Regulations, 2020. In addition, records available revealed that the County Executive has various grounded and unserviceable vehicles and motor cycles which are yet to be disposed off. Further, the list of grounded vehicles and motor cycles did not contain critical information about the assets including vehicle registration number, chassis number, type and make of the motor vehicle and location of the assets.

In the circumstances, there is lack of adequate controls and risk of loss of economic value for the disposable assets.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal controls, risk Management and overall 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 the 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 controls 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 controls, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the County Executive's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to cease operations.

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 comply 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 Management 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

My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, 2015 and the International Standards for Supreme Audit Institutions (ISSAIs). The standards require that, in conducting the audit, I obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with Section 48 of the Public Audit Act, 2015. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with IFPP will always detect a material misstatement 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 conducting the audit, Article 229(6) of the Constitution also requires that I express a conclusion on whether or not 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 addition, I consider the entity's control environment 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.

Further, I am required to submit the audit report in accordance with Article 229(7) of the Constitution.

Detailed description of my responsibilities for the audit is located at the Office of the Auditor-General's website at: <https://www.oagkenya.go.ke/auditor-generals-responsibilities-for-audit/>. This description forms part of my auditor's report.


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

30 December, 2024