REPUBLIC OF KENYA

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL OPERATIONS

OF

MERU COUNTY EXECUTIVE

FOR THE PERIOD
1 JULY 2013 TO 30 JUNE 2014

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REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL OPERATIONS OF MERU COUNTY EXECUTIVE FOR THE PERIOD 1 JULY 2013 ENDED 30 JUNE 2014

EXECUTIVE SUMMARY

Introduction

The Office of the Auditor- General has the mandate to audit and report on the accounts of the National and County Governments under Article 229 of the Constitution and Public Audit Act, 2003.The Special Audit has been completed in accordance with Section 229 of the Constitution of Kenya.

Audit Objective

The objective of the audit was to verify and confirm that the County Government of Meru managed the Devolved Funds in a manner that is transparent, financially sound and free from abuse.

Key Audit Findings

1.0 Budgetary Control and Performance

1.1 Non adherence to the prescribed budgetary requirements

The County Executive prepared a budget of Kshs.5,681,680,382 which was approved through Appropriation Act, 2013 and assented to on 30 September 2013. The amount comprised of Kshs.2,789,093,056 and Kshs.2,892,587,326 for Recurrent and Development expenditures respectively. However, the budget documents which were made available for audit did not contain standard codes prescribed by the National Treasury for use by the county governments. Similarly, the financial management systems developed by the National Treasury under clause 12 of the Public Finance Management Act, 2012 for application in facilitating standard financial managements including budgeting, accounting and reporting were not complied with.

In addition, the following observations were made:-

a) Although the sum of Kshs.2,892,587,326 was budgeted for application on development expenditure during the year, only Kshs.650,000,000 was actually spent thus resulting to underutilization of funds totaling Kshs.2,242,587,326 i.e. (Kshs.2,892,587,326 - Kshs.650,000,000). Reasons for failure to absorb the funds were not given.

b) The unutilized amount of Kshs.2,242,587,326 differed with the available Credit balance of Kshs.18,833,775 in the development bank Account No.1000170352 (Central Bank) as at 30 June, 2014 by Kshs.2,223,753,451. No Explanation for the deference was given by the County Government Management.

c) The actual total receipts of Kshs.5,311,634,915 fell short of the estimated target of Kshs.5,681,680,382 by Kshs.370, 045,467 during the period under review. The variance was not explained

1.2 Non Preparation of Supplementary Budget

During the nine months ended 31 March 2014, a total of Kshs.589,303,803 was incurred over and above the budgeted amounts on 34 expenditure items without preparing a Supplementary Budget for appropriate approval by the County Assembly, contrary to clause 135 (1) and (2) of the Public Finance Management Act, 2012**.**

No explanation was given for failure to prepare a Supplementary Budget.

1.3 Non Availability of Controller of Budgets Approval for Withdrawing Funds

The County Executive incurred an expenditures totaling Kshs.2,094,370,610 as reflected in the expenditure returns for the nine (9) months ended 31 March 2014. However, no approval letters from the Controller of Budget were provided for audit to confirm the withdrawal of these funds were indeed approved as required under Article 228 (4) of the Constitution of Kenya.

1.4 Unauthorized Reallocation of Funds

An expenditure of Kshs.3,325,000 was incurred through temporary imprests for construction of fish ponds. However, according to the implementation guidelines that were issued by the Ministry of Fisheries Development, the expenditure was to be charged to item 31111302 (purchase of certified seed and live animals) but instead it was charged to item 3110504 (other infrastructure and civil works). This amounts to reallocation of funds without prior authority contrary to Section 10.19 of the Government Financial Regulations and Procedures.

2.0 Procurement of Goods, Works and Services

2.1 Un-Procedural Procurement of Medical Insurance Scheme

On 5 June 2013, tenders were invited through the Newspaper for provision of Medical Insurance Scheme for all the employees during the financial year 2013 / 2014. In response, twelve (12) bids were received and opened on 27 June 2013 at 11.30am. The bids were evaluated on 27 November 2013 during which an insurance Company was rated the best at a tendered sum of Kshs.35,001,862. A letter of notification of award was issued and the same accepted by the successful bidder. It was however noted that;

The tender documents were opened on 27 November 2013 at 11.30 a.m, some thirty (30) minutes before the deadline time of 12.00 noon indicated in the advert contrary to Section 60 (2) of the Public Procurement and Disposal Act, 2005.

The prices of the tender document were not recorded in the tender opening register.

The tendered price of Kshs.35,001,862 was negotiated downwards by Kshs.3,355,730. to stand at Kshs.31,646,132 without any justification for the reduction by the Tender

Committee resolution contrary to Section 85 (2) (a) of the Public Procurement and Disposal Act, 2005.

At the tender evaluation stage, the winning bidder did not attach the tender purchase receipt to meet one of the qualification criteria set by the Technical Evaluation Committee and should not therefore have qualified for the next process, that is, financial evaluation.

2.2 Irregular Procurement of Consultancy Services

The County Executive had an approved budget of Kshs.43,443,900 on research, feasibility studies, project preparation and design and project supervision under expenditure item 3111400. An expenditure of Kshs.25,332,028 was incurred out of the budgeted amount. However, no documents were produced for audit to confirm the expenditure as a proper charge to public funds.

Tender committee recommendations or reasons for using restricted tendering as required by section 73(2)(a) and (b) of the Public Procurement and Disposal Act, 2005 was not given;

Prequalification of contractors was not done as required under section 23(1) and (2) of the Public Procurement and Disposal Regulations,2006 and when read together with section 73(2)(a) of the Public Procurement and Disposal Act,2005, out rightly, the County Government violated the mandatory Procurement Procedure and Regulations.

2.3 Direct Procurement of Leasing County Offices and Residential Houses

The County Executive had incurred an expenditure of ksh 17,407152.00 as at 30 June 2014 in leasing County offices and residential houses. However, the leased premises were directly procured (Single sourced) without any circumstantial evidence to proof that the conditions spelt out in section 74 (2) (a) and (b) including section 74 (3) (a) (b) and (c) of the Public Procurement and Disposal Act, 2005 were adhered to.

No explanation was given for the gross breach of the procurement law and procedures.

2.4 Unjustified use of Restricted Tendering in the Procurement of Goods and Works

Restricted tendering method was used to procure goods and works worth Kshs.672, 439,239 without due regard to the conditions spelt out in Section 73 (2) (a) (b) and (c) of the Public Procurement and Disposal Act, 2005:

3.0 Review of Accounting System

3.1 Poor Maintenance of Accounting Records

The Vote Books in use to account for expenditure during the period under review were manually prepared, incomplete and poorly maintained. Imprests issued were recorded in the vote book as payments instead of commitments. In addition, total amounts payable inform of outstanding commitments were not properly recorded. It was not possible to ascertain the total amount outstanding as commitments as at 31 March 2014. Therefore, total/actual expenditure for the County Executive provided as Kshs.2,094,370,610 in Expenditure returns for the nine (9) months ended 31 March 2014 could not be accurately ascertained

3.2 Maintenance of inaccurate cash books and failure to record huge cash withdrawals.

One soft copy of the separate cash book in Microsoft Excel version was maintained for the Operations Account at the Kenya Commercial Bank (KCB), recurrent account at the Central Bank of Kenya (CBK) and the Development account at the CBK instead of separate cash books for each account. The cash book entries were neither checked and signed by any senior officer to signify the correctness of all entries made thus contravening Section 5.9.1.1 of the Government financial Regulations and Procedures. Further, the softcopy separate cash book had only recorded expenditures totaling Kshs.1,434,834,407 while expenditure returns indicated total expenditure of Kshs.2,094,370,610. Therefore, the soft copy separate cash book did not capture expenditure totaling Kshs.659,536,203.34. No explanation was given for this anomaly of the cash books could not be confirmed.

3.3 Bank Reconciliation Statements

The County Executive operated three bank accounts namely Recurrent and Development both maintained at the CBK and Operations account maintained at the KCB. However, the Bank reconciliation statements made available for audit verification did not indicate the accounts to which they related, that is, whether Recurrent, Development or Operations. The statements were also not signed by the head of accounting unit. In addition, the bank reconciliation statements were last prepared in January 2014 thus contravening the provisions of Section 5.9.1.2 of the Government Financial Regulations and Procedures.

3.4 Failure of the Computerized System to Produce Ledger Accounts and other Statutory Reports

The County Executive had incurred an expenditure of Kshs.2,094,370,610 as at 31 March 2014 as reflected by expenditure returns produced for audit. However, there were no monthly ledgers to support this expenditure in respect of recurrent or development (class Zero and class one respectively). In addition, a review of Integrated Financial Management Information System (IFMIS) disclosed that the system produced a ledger which was not in conformity with the requirements of Section 5.11.2 and 5.11.3 of the Government Financial Regulations and Procedures. Further, the purported development of IFMIS ledger reflected development expenditure of Kshs.540,484,872.00 instead of Kshs.40,484,872.00 representing an error of 1,235% while the recurrent IFMIS ledger reflected an expenditure of Kshs.990,315,064.00 instead of Kshs.110,315,064.00 representing an error of approximately 798%. The two accounting systems in use by the County Government of Meru (IFMIS and Manual) did not produce Ledger Accounts, Trial Balances, Statutory Control Reports, detailed head/item analysis and AIE expenditure statements complete with grouping of accounts codes in to the prescribed bands as required by Section 5.11.3 of Government Financial Regulations and Procedures. Further, no reconciliation of accounting data between the manual accounting system and the IFMIS for the expenditure incurred as at 31 March 2014 was done contrary to Paragraph 5.11.4 of the Government Financial Regulations and Procedures.

4.0 Irregular payment of legal services

Following the ban of Miraa by the United Kingdom Government and filing of a case by Meru Miraa farmers in one of the law courts of London. Details of case reference including sworn affidavits were also not made available for audit verification. Curiously, the law firm was not representing Meru County Government and therefore did not have the moral right to be paid directly. Besides, there was no budgetary allocation for this item, Executive Committee minute or County Assembly approval for the payment.

In the circumstances, the propriety of the expenditure could not be confirmed.

5.0 Unsupported Expenditures on Medical Supplies

According to the expenditure returns summary for the period 1 July 2013 to 31 March 2014, the department of Health spent a total of Kshs.122,656,199 in the month of February 2014 alone on procurement of health commodities (Medicine and nutrition etc) for distribution to various health facilities within Meru County. However, payment vouchers provided for audit including those paid after 31 March 2014 accounted for payments totaling Kshs.58,763,704 thus leaving un accounted for balance of Kshs.63,892,495.00.

No explanation was given for the unaccounted for expenditure.

6.0 Un-accounted for Medical Supplies

A Drugs Supplier was paid Kshs.2,563,525 for supplying 687 packages of medical drugs. The goods were transported and delivered. However, the goods received were neither recorded in the stores ledgers nor verified by the Inspection and Acceptance Committee. The goods had not been requisitioned for and it was therefore not clear whether they were necessary and who the end users were. Similarly, tender documents were not provided, an indication that the goods may not have been competitively sourced. In a related transaction, a sum of Kshs.2,292,250 was paid to a firm to provide a technology that was expected to improve medical diagnosis at each of the ten (10) Health Institutions. However, details on the nature of ailments that were supposed to be diagnosed including the names of the institutions earmarked to benefit from the installation of the technology were not made available for audit verification. Further, it was not explained whether the purported technology was installed and commissioned for use by the intended healthy facilities as desired.

In the circumstances, the propriety of the expenditure of Kshs.4,855,755 could not be confirmed.

7.0 Unjustified Consultancy Expenditures on Preparation of the Financial Statements.

A Consultancy firm was contracted to provide consultancy services on preparation of consolidated financial statement of the former Municipal Councils' of Meru and Maua together with County Councils of Nyambene and Meru Central as at 30 June 2013. The contract also included a comprehensive review of the financial statements of the same former councils for the last five (5) years. Although the County Executive has twenty seven (27) accounts officers with six (6) of them being Certified Public Accountants (CPAK), it is instructive to note that the accountants had the capacity and the ability to prepare the financial statements but Meru County Executive opted to outsource the services for undisclosed reason.

8.0 Bursaries

8.1 Unacknowledged Bursary Disbursements and Lack of Policy Frame Work

A total of Kshs.51,580,550.00 was disbursed to various institutions of learning as bursaries to assist bright but needy students. There were no predetermined formalized procedures such as advertisement, application letters, preset selection criteria, signed minutes of the vetting committee and general policy guideline on bursaries award. Further, no records were maintained to show that the funds were acknowledged by the beneficiaries. Although the expenditure was charged to education improvement and support item in the budget because there was no approved bursaries item, the treatment of the expenditure was suspect as the item literally refers to infrastructural (physical) developments such as construction of schools, laboratory equipment and other office equipment.

As a result, the propriety of the expenditure could not be confirmed.

9.0 Imprest and Advances

9.1 Outstanding Imprest

Examination of imprest registers revealed that some officers were issued with more than one imprest. Further, it was observed that temporary imprests totaling Kshs.26,697,333 had not been accounted for as at 30 April 2014 as per imprest registers.

In addition, temporary imprests were issued to purchase goods in cash worth Kshs.2,269,080 contrary to Treasury Circular 3/2010 of 7 May 2010. These goods were not accounted for since they were neither requisitioned nor taken on charge in the stores ledgers.

In the circumstances, the propriety of the expenditure of Kshs.26,697,338 could be confirmed.

10.0 Fuel

10.1 Unaccounted for Fuel and Poor Maintenance of Registers

Fuel worth Kshs.6,926,497 was purchased but only fuel worth Kshs.1,000,000 was accounted for through fuel register during the month of November 2013**.** The analysis of fuel expenditure maintained for the months of December 2013 to March 2014 could not be relied on since it only indicated block figures for individual vehicles instead of details used in the fuel register. Further, during the months of January to February 2014, the analysis only indicated consumption of fuel instead of individual vehicles and their respective consumption details.

No explanation was given for failure to maintain proper fuel records.

11.0 Irregular withdrawal of funds from the Sub-County Revenue Bank Accounts

A total of Kshs.9,258,004.00 was banked in the four (4) Meru County Revenue Accounts as at 31 March 2014.

However, instead of transferring the revenue to main County Revenue Fund maintained at the Cooperative Bank Meru as per Transition Authority Letter, the amount was irregularly withdrawn from the respective bank accounts and used for undisclosed purposes.

In the circumstances, the propriety of the expenditure of Kshs.9,258,000 could not be confirmed.

12.0 Illegal Maintenance of a Bank Account

On 3 December 2013, a liquor licensing bank account was opened at the Cooperative Bank - Meru Branch. The Account was meant for receiving license fees emanating from all liquor related businesses. However, contrary to Article 109 (2) of the Public Finance Management Act, 2012 a total of Kshs.6,555,280 had been collected and banked in that account as at 29 April 2014 but the amount had not been transferred to the County Revenue Fund Account held at the Cooperative Bank Meru branch as at the conclusion of audit. Further, no approval resolutions (minutes) from Executive Committee and the County Assembly were made available for audit to justify the opening of the account.

13.0 Under Banking of Revenue Collection

The Meru Municipal Sub-County collected a total of Kshs.105,880,108 between 1 July 2013 and 31 March 2014 but only Kshs.105,557,478 was banked at Cooperative Bank Meru branch thus resulting to an under banking of Kshs.322,630. The under banking was not explained or any documents produced to show how the amount was spent.

No explanation was given for underbanking of Kshs.322,630.

14.0 Illegal Collection of Revenue

During the period under review, the County Government of Meru collected revenue from local sources totaling Kshs.207,971,674. However, no revenue raising measures were submitted to the County Assembly for approval as required in clause 132 (1) & (2) and 133 of the Public Finance Management Act, 2012. Although the finance bill was published the County Assembly did not approve the financial bill. Consequently, the County Government continued to collect revenue using the fees and changes of the defunct Local Authorities under Meru County.

No explanation was given for the gross breach of the law.

15.0 Human Resource Records

15.1 Irregular Increase of Monthly Salaries for the Chief Executive Members

The Chief Executive Committee members resolved to increase their monthly salaries by Kshs.60,000 up from Kshs.225,000 to Kshs.285,000 with effect from 1 August 2013. The payments were made for six (6) months up to 31 January 2014 and effectively discontinued from 1 February 2014. The increase was however found to be irregular as it contravened Gazette legal notice no. 2888 of 28 February 2013 in which the minimum salary entry point for all Chief Executive Committee members was set at Kshs.225,000 p.m. The overall effect of this was irregular over payments totaling Kshs.3,600,000 for the six (6) months.

No explanation was given for the irregular payments.

16.0 Doubtful Expenditure

A total of Kshs.4,998,325 was paid to causal workers for working at local markets and town centers of the various Sub-Counties of Meru County. However, there was no predetermined criteria that was developed and followed in sourcing for the casuals. In addition, the payment schedules in support of the payments lacked signatures and identity card numbers of the respective payees. Besides, no written requests for services of casuals were made from the departments.

In the circumstances, the propriety of the expenditure of Kshs.4,998,325 could not be confirmed.

17.0 Recruitment of Staffs

17.1 Unprocedural recruitment of staffs for the Offices of the Governor and the Deputy Governor

The County Government engaged eight (8) officers for the office of Governor and the Deputy Governors by identifying and advising them to apply for the posts.

There were no records to prove the posts filled were in the approved budget and were competitively sourced for recruitments in compliance with clause 10.3 (i), (ii), (iii) and (iv) of the County Government Act, 2012.

No explanation was given for failure to comply with the County Government Act, 2012.

17.2 Non adherence to Gender balance Provisions during Recruitments

During the period July 2013 to 31st March 2014, a total of 138 officers were employed out of whom 34 were females and 104 males thus flouting Article 175 (c) of the Constitution.

It was not explained why the requirements of article 175 (c) of the Constitution was not adhered to in the recruitment of staff.

17.3 Non adherence to Gender and Regional balance provisions during Recruitment thresh hold of Officers outside Meru County

Contrary to Article 65 (1) (e) and 175 (c) of the Constitutional threshold. Out of the 138 persons employed, only 10 were from other counties and the remaining 92.8% from the dominant ethnic community in the County of Meru. The details are as shown below:-

18.0 Allowances

18.1 Irregular Payment of Extraneous Allowance

The County Government requested the Salaries and Remuneration Commission for payments of extraneous allowances to seven (7) security officers attached to the Governor and the Deputy Governor. In response, the Salaries and Remuneration Commission advised that additional information such as cadre of the staff involved as well as nature, scope and circumstance under which they work be forwarded for consideration. However, this letter was not responded to. Interestingly, and against this background, the seven (7) officers were paid a total of Kshs.1,011,150 for the period April to December 2013 without any approval from the commission.

18.2 Irregular Increase of Transport Allowance

The ten (10) Chief Executive Committee members passed a resolution to the effect that they be refunded a flat rate of Kshs.4,000 per day for twenty three (23) working days in a month until the government provides official transport. This was to take care of transport expenses within and outside the Meru County. Accordingly, based on this resolution and in total defiance of the Salaries and Remuneration Commission circular, the members irregularly overpaid themselves a sum of Kshs.5,220,000 within a period of eight (8) months running from May to December 2013.

19.0 Unsupported Traveling Expenses

The County Executive of Meru organized for Meru County stake holders meeting at Safari Park Hotel – Nairobi for 1000 participants on 25 January 2014 and as a result incurred an expenditure of Kshs.1,691,740

The payment was however not supported by invitation letters, budget plans, documentary evidence of travel (work tickets or bus tickets), signed schedule by participants and it was therefore not possible to confirm whether the stake holders meeting took place. It was also observed that procurement procedures were not adhered to in the procurement of the service.

It was not explained why the stake holder meeting was not held in Meru.

20.0 Unjustified Expenditures on foreign trips

According to the expenditure returns, the office of the Governor was allocated Kshs.10,000,000 for use on overseas travel by senior staff and training expenses. Out of this amount, Kshs.5,914,088 had been spent as at 31 March 2014

However, it was not possible to vouch the expenditure due to non-availability of the relevant payment vouchers. In addition, correspondence file that could have contained request memos, budget proposals, correspondences with the countries visited, itinerary of activities proposed, date of travel and end of journey reports were also not made available for audit review. In the circumstances, the propriety of the expenditure of Kshs.5,914,088 could not be confirmed.

21.0 IT Environment

21.1 Integrated Financial Management Information System (IFMIS) and G-Pay

The Integrated Financial Management Information System (IFMIS) has been installed at the County Treasury. However, not all transactions were processed through IFMIS. There was a Local Area Network for IFMIS system in Accounts, Procurement and Finance sections and more than ten employees had been trained on use of the system.

22.0 Debtors

22.1 Unsupported debtors balances

According to the audited financial statements of the former municipal councils of Meru and Maua together with County councils of Meru Central and Nyambene debtors balance for the eight (8) months ended 28 February 2013 stood at Kshs.430,731,900. This amount increased to Kshs.458,951,745 during the four (4) months ended 30 June 2013 but reduced significantly to Kshs.302,822,528 during the nine (9) months ended 31 March 2014. The decrease was however attributed to non-inclusion of contributions in lieu of rates (CILOR) whose figures and records had not been compiled as at the conclusion of audit. The debtors' records were not updated and therefore the accuracy of the balances reflected herein could not be confirmed. Cases were also noted whereby Meru County Hotel and Kenya Methodist University had not paid Kshs.15,030,000 and Kshs.2,340,000 as at 31 March 2014 respectively and despite this, no tangible efforts had been made to have them pay. These debts were inherited from the former councils and no proper handing over was done as required by Transition Authority. Similarly, the County Government of Meru does not have a consolidated debtors ledgers for all the four (4) sub counties. In addition, there exists no policy on provisions of bad and doubtful debts despite the fact that some debts had been outstanding for a long time.

No explanation was given for failure to maintain debtors register.

23.0 Non-Current Assets

23.1 Unsupported non-Current Assets Balances

As at 28 February 2013, the value of non-current assets of the former Municipal Councils of Meru and Maua together with former County Councils of Nyambene and Meru Central stood at Kshs.1,124,750,697. These values increased to Kshs.3,152,140,827 in the four (4) months ended 30 June 2013 and include a sum of Kshs.47,020,020 in respect of those assets procured by Meru County Government itself. Against this background, the County Government of Meru did not maintain a Fixed Assets Register for all the assets procured or change ownership documents for the assets previously owned by the defunct local authorities. Similarly, no hand over / taking over report of all the assets and liabilities was compiled in a format recommended by the Transition Authority.

No explanation was given for failure to take over the non-current assets of the defunct local authorities or why fixed assets register was not maintained.

23.0 Creditors and Statutory Deductions

23.1 Non Maintenance of Creditors Ledgers, Suspense Accounts and Failure to Setup an Agency Clearing Section

As at 28 February 2013, Creditors balances for the former County Councils' of Nyambene and Meru Central together with Municipal Council of Meru and Maua stood at Kshs.86,615,312. This balance increased to Kshs.143,136,585 as at 30 June 2013. It was however noted that creditors' ledgers were not maintained and no invoices, Local Service Orders/Local Purchase orders and creditors schedules were made available for audit. It was therefore not possible to ascertain the indebtness of the county government to various suppliers of goods, works and services at 31 March 2014. Further, the head of accounting unit had not established a suspense/clearance accounting section within the accounting unit to review and clear the various suspense accounts at least once every month. Similarly, suspense accounts relating to temporary imprests, salary advances and other statutory deductions were also not maintained. For example, as at the time of audit, imprest registers indicated outstanding imprests totaling Kshs.27,329,048. No suspense account was maintained to reflect this amount.

No explanation was given for failure to maintain creditors’ ledger.

24.0 Un supported Debt Resolution Expenditure

A sum of Kshs.78,651,379 were allocated in the budget for settlement of debts that had not been cleared by the defunct local authorities as at 28 February 2013. Consequently, an expensive of Kshs.25,297,980 was paid as at 30 June 2014. As reflected in a summary schedule produced for audit. However no payment vouchers, settled invoices and ledgers were produced for audit verification. Therefore, the authenticity of the expenditure totaling Kshs.25,297, 980 could not be confirmed.

25.0 Irregular Award of Car Loans under Mortgage and Car Loans Scheme

The Meru County Loan and Mortgage Scheme Fund BILL NO.3 OF 2014 was passed on 18 February 2014 assented by The Governor.

Sixty three Members of County Assembly were advanced loan of Kshs.5,000,000.00 each totaling Kshs.315,000,000.00 for purchase of Motor Vehicles and mortgage by Capital Savings and Credit Co-operative Society .According to a copy of the Quadripartite Loan Agreement made available, the agreement was made on 24 April 2014 between MCA’S, the SACCO and the Meru County Government as the guarantor. As at 23 May 2015, the County Executives had paid an interest of Kshs.1,122,916 on behalf of MCA’S. No budgetary provisions had been made for that purpose

The County government guaranteed the loans without a Mortgagee and Loans Scheme being in place as required by the law.

No evidence was availed for audit to show that the loans advanced were utilized for the intended purposes and the vehicles said to have bought by MCA’s is registered jointly with the County Government of Meru.

26.0 General Observations

26.1 Failure to Appoint Accounting Officers

The County Government had incurred an expenditure totaling Kshs.2,094,370,610 as per the expenditure returns produced for audit. However, there were no formal written appointment letters for AIE Holders as required by Section 5.2.3.2 of the Government Financial Regulations and Procedures. Instead an internal memo from County Secretary to the Chief Officer Finance, was made available for audit but it did not meet the criteria indicated above. In addition, individual appointment letters for AIE Holders were not made.

Therefore, it was not clear how the officers who authorized payments by initialing their signatures on the payment certificates before 31 March 2014 were appointed.

No explanation was given for failure to appoint A.I.E holders as required.

26.2 Failure to Issue AIEs against Expenditures

The County Government had incurred an expenditure totaling Kshs.2,094,370,610 without the County Executive Committee Member for Finance transmitting the General Warrant to all Accounting officers and authorizing them to incur expenditure vide FORMs – E.

No explanation was given for failure by the County Executive Member of finance to authorize accounting officers to incur expenditure as required.

26.3 Failure to Respond to Audit Reports

The office the Auditor-General issued management letters on financial operations of the defunct councils of Meru County including the County Executive itself for the period 1 January to 30 June 2013.

However, none of the letters have been responded to. Similarly, the Auditor General's report ref. AUDIT/SP/A/C/MERU/(16) dated 13 January 2014 that was addressed to the Clerk of the County Assembly and copied to Meru County Governor and the Clerk of the Senate had also not been responded to or action taken.

No explanation was given for failure to respond to and act on audit reports.

26.4 Irregular Increase of Monthly Salaries for the Chief Executive Members

The Chief Executive Committee members under MIN.50/MCEX/13/1v of a meeting held on 20 August 2013 resolved to increase their monthly salaries by Kshs.60,000 up from Kshs.225,000 to Kshs.285,000 with effect from 1 August 2013. The payments were made for six (6) months up to 31 January 2014 and effectively discontinued from 1 February 2014. The increase was however found to be irregular as it contravened Gazette legal notice No.2888 of 28 February 2013 in which the minimum salary entry point for all Chief Executive Committee members was set at Kshs.225,000 p.m. The overall effect of this was irregular over payments totaling Kshs.3,600,000 for the six (6) months.

Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

29 May 2015

DETAILED REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL OPERATIONS OF THE COUNTY EXECUTIVE OF MERU FOR THE PERIOD 1 JULY 2013 TO 30 JUNE 2014

Detailed Audit Findings

27.0 Budgetary Control and Performance

Non adherence to the prescribed budgetary requirements

The County Executive prepared a budget of Kshs.5,681,680,382 which was approved through Appropriation Act, 2013 and assented to on 30 September 2013. The amount comprised of Kshs.2,789,093,056 and Kshs.2,892,587,326 for Recurrent and Development expenditures respectively. However, the budget documents which were made available for audit did not contain standard codes prescribed by the National Treasury for use by the county governments. Similarly, the financial management systems developed by the National Treasury under clause 12 of the Public Finance Management Act, 2012 for application in facilitating standard financial managements including budgeting, accounting and reporting were not complied with.

In addition, the following observations were made:-

d) Although the sum of Kshs.2,892,587,326 was budgeted for application on development expenditure during the year, only Kshs.650,000,000 was actually spent thus resulting to underutilization of funds totaling Kshs.2,242,587,326 i.e. (Kshs.2,892,587,326 - Kshs.650,000,000). Reasons for failure to absorb the funds were not given.

e) The unutilized amount of Kshs.2,242,587,326 differed with the available Credit balance of Kshs.18,833,775 in the development bank Account No. 1000170352 (Central Bank) as at 30 June, 2014 by Kshs.2,223,753,451. No Explanation for the deference was given by the County Government Management.

f) The actual revenue collection of Kshs.5,311,634,915 fell short of the estimated target of Kshs.5,681,680,382 by Kshs.370,045,467 during the period under review. The under collection of revenue was not explained.

Recommendations

- The County Executive should ensure that all its financial operations are in accordance with the law.

- The County Executive should explain failure to spend/utilize Kshs.2,242,587,326 for development vote.

- The unutilized amount not in bank of Kshs.2,223,753,451 should be accounted for.
- The County Executive should explain the under collection of revenue by Kshs.370,045,467 and put in place proper mechanisms to ensure total revenue collection.

27.1 Non Preparation of Supplementary Budget

During the nine months ended 31 March 2014, a total of Kshs.589,303,803 was incurred over and above the budgeted amounts on 34 expenditure items without preparing a Supplementary Budget for appropriate approval by the County Assembly, contrary to clause 135 (1) and (2) of the Public Finance Management Act, 2012**.**

No explanation was given for failure to prepare a Supplementary Budget.

Recommendation

The management of the County Executive should always adhere to the provisions of the Public Finance Management Act, 2012 on budget preparation and budgetary control

27.2 Non Availability of Controller of Budgets Approval for Withdrawing Funds

The County Executive incurred an expenditures totaling Kshs.2,094,370,610 as reflected in the expenditure returns for the nine (9) months ended 31 March 2014. However, no approval letters from the Controller of Budget were provided for audit to confirm the withdrawal of these funds were indeed approved as required under Article 228 (4) of the Constitution of Kenya.

Recommendations

Budget approval letters from the Controller of Budget should be maintained for audit purposes.

27.3 Unauthorized Reallocation of Funds

An expenditure of Kshs.3,325,000 was incurred through temporary imprests for construction of fish ponds. However, according to the implementation guidelines that were issued by the Ministry of Fisheries Development, the expenditure was to be charged to item 31111302 (purchase of certified seed and live animals) but instead it was charged to item 3110504 (other infrastructure and civil works). This amounts to reallocation of funds without prior authority contrary to Section 10.19 of the Government Financial Regulations and Procedures. Further, the total imprest of Kshs.3,325,000.includes Kshs.3,000,000 issued on 15 January 2014 and Kshs.325,000.issued on 7 January 2014, an indication that previous imprests were not surrendered/accounted for before new ones were issued contrary to Section 5.6.6 of the Government Financial Regulations and Procedures. It was also noted that the imprests were issued to an Accountant instead of the fisheries officer who was implementing the programme. As at the time of audit, the imprests had not been surrendered/or accounted for.

Recommendation

Guidelines issued by the National Treasury should always be adhered to. Similarly, fresh imprests should not be issued before previous ones are surrendered and fully accounted for. The County Executive should account for the animals worth Kshs.1,800,000.

28.0 Procurement of Goods, Works and Services

28.1 Un-Procedural Procurement of Medical Insurance Scheme

On 5 June 2013, tenders were invited through the Newspaper for provision of Medical Insurance Scheme for all the employees during the financial year 2013/2014. In response, twelve (12) bids were received and opened on 27 June 2013 at 11.30am. The bids were evaluated on 27 November 2013 during which an insurance Company was rated the best at a tendered sum of Kshs.35,001,862. A letter of notification of award was issued and the same accepted by the successful bidder. It was however noted that;

The tender documents were opened on 27 November 2013 at 11.30 a.m, some thirty (30) minutes before the deadline time of 12.00 noon indicated in the advert contrary to Section 60 (2) of the Public Procurement and Disposal Act, 2005.

The prices of the tender document were not recorded in the tender opening register.

The tendered price of Kshs.35,001,862 was negotiated downwards by Kshs.3,355,730 to stand at Kshs.31,646,132 without any justification for the reduction by the Tender Committee resolution contrary to Section 85 (2) (a) of the Public Procurement and Disposal Act, 2005.

Although cheque No.1104 dated 28 January 2014 for Kshs.31,646,132 was processed and paid in favor of the Insurance Company, as reflected in the cash book, the relevant payment vouchers including supporting documents were not made available for audit verification and therefore the expenditure remains unsupported.

At the tender evaluation stage, the winning bidder did not attach the tender purchase receipt to meet one of the qualification criteria set by the Technical Evaluation Committee and should not therefore have qualified for the next process, that is, financial evaluation.

Minutes of the tender award committee were also not made available for audit verification.

Meru County Executive and the Insurance Company Ltd did not enter into a written agreement as required by section 68 (I) of the Public Procurement and Disposal Act,2005.

In view of the above, the propriety of the expenditure could not be confirmed.

Recommendation

The County Executive should ensure that the Public Procurement and Disposal Act, 2005 and its regulations are strictly adhered to in all future procurements. The anomalies stated above be investigated and explained appropriately.

28.2 Irregular Procurement of Consultancy Services

The County Executive had an approved budget of Kshs.43,443,900 on research, feasibility studies, project preparation and design and project supervision under expenditure item 3111400. An expenditure of Kshs.25,332,028 was incurred out of the budgeted amount. However, no documents were produced for audit to confirm the expenditure as a proper charge to public funds.

Further, a Planning firm was contracted to carryout consultancy works of digital topographical mapping, preparation of strategic integrated urban development plan for Nturungwi `A` at a contract price of Kshs.19,863,515 under contract No MCB/RT/112/2013-2014. The firm was paid Kshs.14,897,636 through payment voucher No 002723 of 23 June 2014. However, it was observed that the expenditure was charged to expenditure item 3130100-Acquisition of Assets vote head instead of under of 3111400-research, feasibility studies, project preparation & design and project preparation. No explanation was given for the reallocation of funds without prior authority. Further, the strategic integrated urban development plan document was not produced for audit verifications and it was therefore not possible to confirm to whether the services rendered or not.

In addition, an amount of Kshs 19,907,500 was paid to Geoland Survey who had been contracted through contract No.MCG/RT/161/2013-2014 to provide consultancy services to mark the extent of plots and indicate boundaries to allottees in Turingwi 'A' at a contract price of Kshs.26,400,000. The payment was made vide payment voucher No 002973 of 30 June 2014 and was charged to expenditure item 2110100-basic salaries (permanent employees) rather than item 3111400-research, feasibility studies, project preparation & design and project preparation. However, the authority to reallocate the funds was not produced for audit verifications and no documentary evidence was produced for audit to confirm the services were rendered.
In the above two (2) contracts;

a) Tender committee recommendations or reasons for using restricted tendering as required by section 73(2)(a) and (b) of the Public Procurement and Disposal Act,2005 was not given;

b) Prequalification of contractors was not done as required under section 23(1) and (2) of the Public Procurement and Disposal Regulations,2006 and when read together with section 73(2)(a) of the Public Procurement and Disposal Act,2005, out rightly, the County Government violated the mandatory Procurement Procedure and Regulations.

In the circumstances, the propriety of the expenditure could not be confirmed.

Recommendations

The County Executive should always adhere to the Public Procurement and Disposal Act, 2005 and the Public Procurement and Disposal Regulations (amended) 2013 in procurement of goods, works and services.

28.3 Direct Procurement of Leasing County Offices and Residential Houses

The County Executive had incurred an expenditure of Kshs.17,407152 as at 30 June 2014 in leasing County offices and residential houses. However, the leased premises were directly procured (Single sourced) without any circumstantial evidence to proof that the conditions spelt out in section 74 (2) (a) and (b) including section 74 (3) (a) (b) and (c) of the Public Procurement and Disposal Act, 2005 were adhered to.
No explanation was given for the gross breach of the procurement law and procedures.

Recommendation

The County Executive should always adhere to the provisions of the Public Procurement and Disposal Act, 2005 and Regulations, 2006.

28.4 Unjustified use of Restricted Tendering in the Procurement of Goods and Works

Restricted tendering method was used to procure goods and works worth Kshs.672,439,239 without due regard to the conditions spelt out in Section 73 (2) (a) (b) and (c) of the Public Procurement and Disposal Act, 2005. In particular:

(i) Prequalification of contractors was not done as required under Section 23 (1) and(2) of the Public Procurement and Disposal Regulations 2006 and when read together with section 73 (2) (a) of the Public Procurement and Disposal Act, 2005, the County Executive violated the mandatory Procurement Procedure and Regulations.

(ii) Instead of advertising for tenders before the closure of the last financial year that ended on 30 June 2013 to allow sufficient time for competition and biding on goods and works needed, the exercise was hastily done in the months of January and February 2014 through restricted method of tendering to justify the time and cost factors spelt out in Section 73 (2) (b) of the Public Procurement and Disposal Act, 2005.

(iii) No records or information was made available to show there were a few known suppliers of goods and works sourced as required by Section 73 (2) (c) of the Public Procurement and Disposal Act, 2005.

(iv) There was no approval of the Tender Committee or written reasons for using restricted method of tendering as required by Section 29 (3) (a) and (b) of the Public Procurement and Disposal Act, 2005.

(v) There was no procurement plan as required under section 20 (1) (2) (3) (4) and (5) of the Public Procurement and Disposal Regulations 2006 and it was therefore not clear how the needs were identified and brought on board during the procurement.

(vi) There were no written contracts between the persons submitting the successful tender and the County Executive as required under section 68 (3) of the Public Procurement and Disposal Act, 2005.

(vii) An Inspection and Acceptance Committee was not established contrary to Section 17 (1) of the Public Procurement and Disposal Regulations 2006 and therefore, it was not possible to confirm that the goods and works met the specifications required.

(viii) The legality of the Tender Committee members could not be ascertained as there were no appointment letters issued in accordance with second schedule of section 10 (I) of the Public Procurement and Disposal Regulations, 2006.

(ix) The projects were not individually factored in the budget thus casting doubt as to whether they were fully provided for and approved appropriately.

(x) The budget document provided for audit did not indicate the names of the projects intended for implementation including the cost per project.

(xi) The project files did not contain critical documents such as bill of quantities, letter of award, letter of acceptance, copies of payment vouchers, certificate of work done, Tender Committee award minutes, advertisement copies, site meeting minutes and project status.

(xii) A Prime Mover registration No KBY 638C bearing chassis No. WMAHW8226AM555811 and engine No 50526141422615 and one Low Bed Carrier bearing chassis No CME-0694-2014 were procured from CMC Motors Group, through restricted tendering method of procurement under contract No MCG/RT//092/2013-2014.The prime mover was procured at a cost of Kshs 12,760,000 and the low bed carrier at a cost of Kshs.5, 066,270.

(xiii) A Komatsu Dozer D65EX-16 registration No KBY 866C was procured from Pan African Equipment Kenya through restricted tendering method of procurement. The equipment was procured at a cost of Kshs.28, 000,000.

(xiv) A motor grader chassis No. CAT0140KJJPA01300 costing Kshs.30,800,000 and one Backhoe Loader chassis No. CAT0428FALBH02281 costing Kshs.8,800,000 were procured from Mantrac Kenya through restricted tendering method of procurement.

In the circumstances, there was no justification of using restricted tendering for the procurement of goods and works worth Kshs.672, 439,239.

Recommendation

There is urgent need to professionalize the procurement department with a view of ensuring that procurement rules, procedures and regulations are strictly adhered to.

29.0 Review of Accounting System

29.1 Poor Maintenance of Accounting Records

The Vote Books in use to account for expenditure during the period under review were manually prepared, incomplete and poorly maintained. Imprests issued were recorded in the vote book as payments instead of commitments. In addition, total amounts payable inform of outstanding commitments were not properly recorded. It was not possible to ascertain the total amount outstanding as commitments as at 31 March 2014. Therefore, total/actual expenditure for the County Government provided as Kshs.2,094,370,610 in Expenditure returns for the nine (9) months ended 31 March 2014 could not be accurately ascertained. Moreover, a review of expenditure supported by bank statements and expenditure returns for the period ended 31 March 2014 revealed unexplained difference of Kshs.91,056,303 between the two sets of records arrived at as follows:-

Details	**Amount (Kshs.)**
Expenditure as per returns as at 31/3/14	2,094,370,610
Expenditure as per bank statements as at 31/3/14	2,003,314,307
Unexplained difference	91,056,303

The difference of Kshs.91,056,303 and poor maintenance of the vote books was not explained.

Recommendations

The management of the County Executive should ensure proper books of account are well maintained and consider requesting the National Treasury to second experienced Accountants to assist the county staff in setting up proper accounting system in accordance with Section 14(1) of the Public Finance Management Act, 2012. The difference of Kshs.91, 056,303 between the bank statements and expenditure returns should be investigated and explained or accounted for.

29.2 Maintenance of inaccurate cash books and failure to record huge cash withdrawals.

One soft copy of the separate cash book in Microsoft Excel version was maintained for the Operations Account at the Kenya Commercial Bank (KCB), recurrent account at the Central Bank of Kenya (CBK) and the Development account at the CBK instead of separate cashbooks for each account. The cash book entries were however not checked and signed by any senior officer to signify the correctness of all entries made thus contravening Section 5.9.1.1 of the Government financial Regulations and Procedures. Further, the softcopy separate cash book had only recorded expenditures totaling Kshs.1,434,834,407 while expenditure returns indicated total expenditure of Kshs.2,094,370,610. Therefore, the soft copy separate cash book did not capture expenditure totaling Kshs.659,536,203.34. No explanation was given for this anomaly.

The Chief Officer Finance and Director of Accounts authorized cash withdrawals from the operations account maintained at KCB totaling Kshs.203,489,756 during the period under review. However, letters used to request for authority to withdraw the funds were unreferenced and did not indicate the purpose for which the cash was required. Besides, the respective payment vouchers to support each withdrawal and the subsequent expenditures were not made available for audit verification.

In the circumstances, the completeness and accuracy of the cash books could not be confirmed.

Recommendations

i). The County Executive should ensure that the provisions of Sections 5.9.1.1 and 5.9.1.2 of the Government Financial regulations and procedures are adhered.

ii). The County Government should also ensure that separate cashbooks for each bank account are maintained and bank reconciliation statements are prepared on monthly basis.

iii). Provide specific expenditure details on how Kshs.203,489,610.64 was spent.

29.3 Bank Reconciliation Statements

The County Executive operated three bank accounts namely Recurrent and Development both maintained at the CBK and Operations account maintained at the KCB. However, the Bank reconciliation statements made available for audit verification did not indicate the accounts to which they related, that is, whether Recurrent, Development or Operations. The statements were also not signed by the head of accounting unit. In addition, the bank reconciliation statements were last prepared in January 2014 thus contravening the provisions of Section 5.9.1.2 of the Government Financial Regulations and Procedures.

Recommendation

- The bank reconciliation statements should be revised to show the account number to which they relate.
- Separate bank reconciliation statements for each account should be prepared on monthly basis on form F.O.30 and signed by the head of accounting unit.

29.4 Failure of the Computerized System to Produce Ledger Accounts and other Statutory Reports

The County Executive had incurred an expenditure of Kshs.2,094,370,610 as at 31 March 2014 as reflected by expenditure returns produced for audit. However, there were no monthly ledgers to support this expenditure in respect of recurrent or development (class Zero and class one respectively). In addition, a review of Integrated Financial Management Information System (IFMIS) disclosed that the system produced a ledger which was not in conformity with the requirements of Section 5.11.2 and 5.11.3 of the Government Financial Regulations and Procedures. Further, the purported development of IFMIS ledger reflected development expenditure of Kshs.540,484,872.00 instead of Kshs.40,484,872.00 representing an error of 1,235% while the recurrent IFMIS ledger reflected an expenditure of Kshs.990,315,064.00 instead of Kshs.110,315,064.00 representing an error of approximately 798%. The two accounting systems in use by the County Government of Meru (IFMIS and Manual) did not produce Ledger Accounts, Trial Balances, Statutory Control Reports, detailed head/item analysis and AIE expenditure statements complete with grouping of accounts codes in to the prescribed bands as required by Section 5.11.3 of Government Financial Regulations and Procedures. Further, no reconciliation of accounting data between the manual accounting system and the IFMIS for the expenditure incurred as at 31 March 2014 was done contrary to Paragraph 5.11.4 of the Government Financial Regulations and Procedures.

Recommendations

i) The County Executive should ensure that the two accounting systems produce ledger accounts, trial balances, statutory control reports, detailed head/item analysis and AIE expenditure statements complete with grouping of accounts codes into the prescribed bands (votes, heads, sub heads and detailed item analysis) as required by Section 5.11.3 of Government Financial Regulations and Procedures.

ii) A reconciliation of accounting data between the manual accounting system and the IFMIS on the expenditure incurred as at 31 March 2014 should be carried out in accordance with Section 5.11.4 of the Government Financial Regulations and Procedures.

iii) The County Executive should also ensure that copies of monthly trial balances and ledgers are furnished to the Office of the Auditor-General in accordance with Section 5.11.4 of Government Financial Regulations and Procedures.

Following the ban of miraa by the United kingdom Government and filing of a case by Meru Miraa farmers in one of the law courts of London, a meeting was held on 13 September 2013 between a law firm and the County Governor during which, the latter pledged a contribution of Kshs.2,000,000 on behalf of the County Government of Meru to assist in defraying the resultant legal costs. As a result, a payment of Kshs.2,000,000 was processed and paid to the law firm. It was however noted that, though the payment was to be remitted to Dass Solicitors but to the contrary it was paid to the law firm. Further, there were no records / documents to show that the law firm had any instructions to act and negotiate for funds on behalf of miraa farmers. In addition, details of case reference including sworn affidavits were also not made available for audit verification. Curiously, the law firm was not representing Meru County Government and therefore did not have the moral right to be paid directly. Besides, there was no budgetary allocation for this item, Executive Committee minute or County Assembly approval for the payment.

In the circumstances, the propriety of the expenditure could not be confirmed.

Recommendation

The County Executive should recover the amount from the officers who authorized the payment since there was no approval from both the County Executive and the County Assembly for the payment nor any supporting documents.

30.0 Unsupported Expenditures on Medical Supplies

According to the expenditure returns summary for the period 1 July 2013 to 31 March 2014, the department of Health spent a total of Kshs.122,656,199 in the month of February 2014 alone on procurement of health commodities (Medicine and nutrition etc) for distribution to various health facilities within Meru County. However, payment vouchers provided for audit including those paid after 31 March 2014 accounted for payments totaling Kshs.58,763,704 thus leaving un accounted for balance of Kshs.63,892,495.00 arrived at as follows:-

Dept. voucher No	Date	Payee	Amount Kshs.
02249	10.2.14	Mission for Essential Drugs (meds)	2,563,525
05316	23.6.14	“ “	24,270,779
05315	23.6.14	KEMSA	31,884,680
02733	10.4.14	Maua Hill Top Pharmacy	44,680
Sub total			**58,763,704**
		Less expenditure as per returns	122,656,199
Total			**63,892,495**

No explanation was given for the unaccounted for expenditure.
In a Memo addressed to the Chief Finance Officer by the Chief Officer Health, the officer requested for facilitation of ordering Drugs and Non pharmaceuticals and recommended the order to be split between Kenya Medical Supplies Authority (Kemsa) and Mission for Essential Drugs and Supplies (Meds), depending on who offered the cheapest item. In that letter, prices of the two suppliers were quoted as follows:-

	Kemsa Amount (Kshs.)	Meds Amount Kshs.
Drugs (Assorted)	19,093,349	3,191,004
Non pharmaceuticals (Assorted)	31,997,350	24,054,143
	51,090,699	**27,245,147**

The source of these figure were however not explained or justified as no tender documents were provided at all to justify the method of procurement applied. In addition, the expenditure returns summary amount of Kshs.122,656,199 exceeds the budgeted amount of Kshs.100,000,000 by Kshs.22,656,199 yet no supplementary budget was prepared as required under clause 135 (1) (2) and (6) of the Public Finance Management Act, 2012 for consideration by the Executive Committee Members and approval by the County Assembly.

No store records including ledgers were maintained to show that the drugs and non-pharmaceuticals goods were indeed delivered, taken on charge and distributed to various users as desired.

In the circumstances, the propriety of the expenditure of Kshs.122,656,199 could not be confirmed.

Recommendation

The County Executive should account for the expenditure of Kshs.122,656,199 on drugs and non-pharmaceuticals.

31.0 Un-accounted for Medical Supplies

A Drugs Supplier was paid Kshs.2,563,525 for supplying 687 packages of medical drugs. The goods were transported and delivered. However, the goods received were neither recorded in the stores ledgers nor verified by the Inspection and Acceptance Committee. The goods had not been requisitioned for and it was therefore not clear whether they were necessary and who the end users were. Similarly, tender documents were not provided, an indication that the goods may not have been competitively sourced. In a related transaction, a sum of Kshs.2,292,250 was paid to a firm to provide a technology that was expected to improve medical diagnosis at each of the ten (10) Health Institutions. However, details on the nature of ailments that were supposed to be diagnosed including the names of the institutions earmarked to benefit from the installation of the technology were not made available for audit verification. Further, it was not explained whether the purported technology was installed and commissioned for use by the intended healthy facilities as desired.

In the circumstances, the propriety of the expenditure of Kshs.4,855,755 could not be confirmed.

Recommendation

All goods delivered should always be verified by the inspection and acceptance committee and finally recorded in the stores ledgers for accountability purposes.

32.0 Unsupported Expenditure on Medical Supplies

According to the expenditure returns summary for the period 1 July 2013 to 31 March 2014, the department of Health spent a total of Kshs.122,656,199 in the month of February 2014 alone on procurement of health commodities (Medicine and nutrition etc.) for distribution to various health facilities within Meru County. However, payment vouchers provided for audit including those paid after 30 June 2014 accounted for payments totaling Kshs. 58,763,704 thus leaving un accounted for balance of Kshs. 63,892,495 arrived at as follows:-

Dept. voucher No	Date	Payee	Amount Kshs.
02249	10.2.14	Mission for Essential Drugs (meds)	2,563,525
05316	23.6.14	“	24,270,779
05315	23.6.14	KEMSA	3,1884,680
02733	10.4.14	Maua Hill Top Pharmacy	44,720
		Sub total	**58,763,704**
		Less expenditure as per returns	122,656,199
		Total	**63,892,495**

No explanation was given was given for the unaccounted for expenditure.

In a Memo ref. MC/COH/1/23 dated 29 January 2014 addressed to the Chief Finance Officer by the Chief Officer Health, the officer requested for facilitation of ordering Drugs and Non pharmaceuticals and recommended the order to be split between Kenya Medical Supplies Authority (Kemsa) and Mission for Essential Drugs and Supplies (Meds), depending on who offered the cheapest item. In that letter, prices of the two suppliers were quoted as follows:-

	Kemsa Amount (Kshs)	Meds Amount Kshs
Drugs (Assorted)	19,093,349	3,191,004
Non pharmaceuticals (Assorted)	31,997,350	24,054,143
	51,090,699	**27,245,147**

The source of these figure were however not explained or justified as no tender documents were provided at all to justify the method of procurement applied. In addition, the expenditure returns summary amount of Kshs.122,656,199 exceeds the budgeted amount of Kshs.100,000,000 by Kshs.22,656,199 yet no supplementary budget was prepared as required under clause 135 (1) (2) and (6) of the Public Finance Management Act, 2012 for consideration by the Executive Committee Members and approval by the County Assembly.

It was also noted that, no store records including ledgers were maintained to show that the drugs and non-pharmaceuticals goods were indeed delivered, taken on charge and distributed to various users as desired.

In the circumstances, the propriety of the expenditure of Kshs.122,656,199 could not be confirmed.

Recommendation

The County Executive should account for the expenditure of Kshs.122,656,199.

33.0 Unsupported Payments for Motor Vehicle Insurance Premiums

An Insurance Company demanded payments totaling Kshs.3,854,941.00 in respect of unpaid premiums as shown below:-

Insured Items	Amount (Kshs.)
Motor private	1,523,638
Tractor	1,034,636
Motor Commercial	1,124,829
Non Motors	171,838
Total	**3,854,941**

Although the firm was paid the amount, it was not possible to verify and confirm the credibility of the payment due to non-availability of supporting documents. Further, it was not explained the circumstances under which the premiums fell due considering the fact that insurance services are normally prepaid before entering into any enforceable contract.

In view of the foregoing, the propriety of the expenditure could not be confirmed.

Recommendation

The management of County Executive Should justify the expenditure by providing the appropriate supporting documents.

34.0 Unjustified Consultancy Expenditures on Preparation of the Financial Statements.

A Consultancy firm was contracted to provide consultancy services on preparation of consolidated financial statement of the former Municipal Councils' of Meru and Maua together with County Councils of Nyambene and Meru Central as at 30 June 2013. The contract also included a comprehensive review of the financial statements of the same former councils for the last five (5) years. Payments for the two contracted services were made as follows:-

Cheque No	Date	Amount Kshs.
777	21.11.13	500,000
584	18.10.13	850,000
587	18.10.13	850,000
663	1.12.13	1,200,000
	TOTAL	**3,400,000**

Although the County Executive has twenty seven (27) accounts officers with six (6) of them being Certified Public Accountants (CPAK), it is instructive to note that the accountants had the capacity and the ability to prepare the financial statements but Meru County Executive opted to outsource the services for undisclosed reasons. Similarly, an option was made to procure the services through restricted method of tendering, yet there was no tender committee resolution to justify the option. Besides, the bids listed and indicated in the above referenced letter including payment voucher processed and paid for Kshs.500,000 and a report on review of the financial statements for the last five years were not made available for audit verification.

In the circumstances, the propriety of the expenditure of Kshs.3,400,000 could not be confirmed.

Recommendations

i) The management should always strive to utilize the resources at its disposal before considering outsourcing the same services that can be provided by the officers under the employment of the County Government.

ii) The county Executive should provide evidence of delivery of services and supporting documents.

iii) Explain failure to follow procurement law and procedures in acquisition of the consultancy services

35.0 Bursaries

35.1 Unacknowledged Bursary Disbursements and Lack of Policy Frame Work

A total of Kshs.51,580,550.00 was disbursed to various institutions of learning as bursaries to assist bright but needy students. There were no predetermined formalized procedures such as advertisement, application letters, preset selection criteria, signed minutes of the vetting committee and general policy guideline on bursaries award. Further, no records were maintained to show that the funds were acknowledged by the beneficiaries. Although the expenditure was charged to education improvement and support item in the budget because there was no approved bursaries item, the treatment of the expenditure was suspect as the item literally refers to infrastructural (physical) developments such as construction of schools, laboratory equipment and other office equipment.

As a result, the propriety of the expenditure could not be confirmed.

Recommendation

In order for the bursary fund to have positive impact in assisting students, a comprehensive bursary policy should be formulated and adequate budgetary allocation provided.

36.0 Imprest and Advances

36.1 Outstanding Imprest

Examination of imprest registers revealed that some officers were issued with more than one imprest. Further, it was observed that temporary imprests totaling Kshs.26,697,333 had not been accounted for as at 30 April 2014 as per imprest registers.

In addition, temporary imprests were issued to purchase goods in cash worth Kshs.2, 269,080 contrary to Treasury Circular 3/2010 of 7 May 2010. These goods were not accounted for since they were neither requisitioned nor taken on charge in the stores ledgers.

In the circumstances, the propriety of the expenditure of Kshs.26,697,338 could be confirmed.

Recommendations

i). Imprests issued for procurement of goods and services not accounted for should be recovered from the officers' salaries and details of recovery furnished to this office for follow up.

ii). All unsurrendered imprests should be recovered and details furnished to this office.

iii). No additional imprest should be issued to any officer before accounting for the previous one held

iv). AIE Holders should not authorize issue of imprest for procurement of goods and services on cash basis.

37.0 Fuel

37.1 Unaccounted for Fuel and Poor Maintenance of Registers

Fuel worth Kshs.6,926,497 was purchased but only fuel worth Kshs.1,000,000 was accounted for through fuel register during the month of November 2013**.** The analysis of fuel expenditure maintained for the months of December 2013 to March 2014 could not be relied on since it only indicated block figures for individual vehicles instead of details used in the fuel register. Further, during the months of January to February 2014, the analysis only indicated consumption of fuel instead of individual vehicles and their respective consumption details.

No explanation was given for failure to maintain proper fuel records.

Recommendation

Fuel register should be maintained and fuel drawn by vehicles recorded in the respective motor vehicle work tickets and regular checks performed by the responsible officer.

38.0 Revenue Records

38.1 Irregular withdrawal of funds from the Sub-County Revenue Bank Accounts

A total of Kshs.9,258,004 was banked in the four (4) Meru County Revenue Accounts as at 31 March 2014. Details are as follows:-

Sub-county	Bank	Amount Kshs.

Meru Central	Cooperative	4,297,937
Maua Municipal	Cooperative	1,320,105
Meru Municipal	Cooperative	2,714,882
Nyambene	Cooperative	925,080
TOTAL		**9,258,004**

However, instead of transferring the revenue to main County Revenue Fund maintained at the Cooperative Bank Meru as per Transition Authority Letter, the amount was irregularly withdrawn from the respective bank accounts and used for undisclosed purposes.

In the circumstances, the propriety of the expenditure of Kshs.9,258,000 could not be confirmed.

Recommendation

- The County Executive should ensure that no funds are withdrawn from the County Revenue Fund without proper authorization.
- The amount of Kshs.9,258,000 should be accounted for or recovered.

38.2 Illegal Maintenance of a Bank Account

On 3 December 2013, a liquor licensing bank account was opened at the Cooperative Bank - Meru Branch. The Account was meant for receiving license fees emanating from all liquor related businesses. However, contrary to Article 109 (2) of the Public Finance Management Act, 2012 a total of Kshs.6,555,280 had been collected and banked in that account as at 29 April 2014 but the amount had not been transferred to the County Revenue Fund Account held at the Cooperative Bank Meru branch as at the conclusion of audit. Further, no approval resolutions (minutes) from Executive Committee and the County Assembly were made available for audit to justify the opening of the account.

Recommendation

- The management of the County Executive should always comply with requirements of the Public Finance Management Act 2012.
- The proceeds of the illegal bank account should be accounted for appropriately.

38.3 Under Banking of Revenue Collection

The Meru Municipal Sub-County collected a total of Kshs.105,880,108 between 1 July 2013 and 31 March 2014 but only Kshs.105,557,478 was banked at Cooperative Bank Meru branch thus resulting to an under banking of Kshs.322,630. The under banking was not explained or any documents produced to show how the amount was spent.

No explanation was given for under-banking of Kshs.322,630.

Recommendation

The management of County Executive should account for the revenue under banked and in future ensure that no revenue is spent at source

38.4 Illegal Collection of Revenue

During the period under review, the County Government of Meru collected revenue from local sources totaling Kshs.207,971,674. However, no revenue raising measures were submitted to the County Assembly for approval as required in clause 132 (1) & (2) and 133 of the Public Finance Management Act, 2012. Although the finance bill was published the County Assembly did not approve the financial bill. Consequently, the County Government continued to collect revenue using the fees and changes of the defunct Local Authorities under Meru County.

No explanation was given for the gross breach of the law.

Recommendation

In future, efforts should be made to have the Finance Bill presented to the County Executive members for approval in good time.

39.0 Human Resource Records

39.1 Irregular Increase of Monthly Salaries for the Chief Executive Members

The Chief Executive Committee members resolved to increase their monthly salaries by Kshs.60, 000 up from Kshs.225,000 to Kshs.285,000 with effect from 1 August 2013. The payments were made for six (6) months up to 31 January 2014 and effectively discontinued from 1 February 2014. The increase was however found to be irregular as it contravened Gazette legal notice no. 2888 of 28 February 2013 in which the minimum salary entry point for all Chief Executive Committee members was set at Kshs.225,000 p.m. The overall effect of this was irregular over payments totaling Kshs.3,600,000 for the six (6) months.

No explanation was given for the irregular payments.

Recommendation

The management of County Executive should always adhere to circulars and regulations. Recover Kshs.3,600,000 overpaid to each of the ten (10) Chief Executive Members.

40.0 Doubtful Expenditure

A total of Kshs.4,998,325 was paid to causal workers for working at local markets and Town Centres of the various Sub-Counties of Meru County. However, there was no predetermined criteria that was developed and followed in sourcing for the casuals. In addition, the payment schedules in support of the payments lacked signatures and identity card numbers of the respective payees. Besides, no written requests for services of casuals were made from the departments.

In the circumstances, the propriety of the expenditure of Kshs.4,998,325 could not be confirmed.

Recommendations

- The County Executive should always adhere to the requirement of the Government Financial Regulations and Procedures currently in force.

- Proper recruitment procedures should be followed by the county government

41.0 Recruitment of Staffs

41.1 Unprocedural recruitment of staffs for the Offices of the Governor and the Deputy Governor

The County Government engaged eight (8) officers for the office of Governor and the Deputy Governors by identifying and advising them to apply for the posts. The letters of appointment read in part "following your identification by the Governor/Deputy Governor and your subsequent application for employment, I am pleased to inform you that you have been appointed on contract bases as......in the Governor's office/Deputy Governor's office.

However, there were no records to prove the posts filled were in the approved budget and were competitively sourced for recruitments in compliance with clause 10.3 (i), (ii), (iii) and (iv) of the County Government Act, 2012.

No explanation was given for failure to comply with the County Government Act, 2012.

Recommendation

The management of County Executive should source appointment for various posts competitively.

41.2 Non adherence to Gender balance Provisions during Recruitments

During the period July 2013 to 31st March 2014, a total of 138 officers were employed out of whom 34 were females and 104 males thus flouting Article 175 (c) of the Constitution. The details are as shown below:-

Gender	Workings	Constitutional threshold applicable	No employed	Variance
Female	$^{1}/_{3}$ of 138	46	34	12 less
Male	$^{2}/_{3}$ of 138	92	104	12 more
Total		138	138	

It was not explained why the requirements of article 175 (c) of the Constitution was not adhered to in the recruitment of staff.

Recommendation

The County Executive should always adhere to Constitutional provisions when recruiting officers.

41.3 Non adherence to Gender and Regional balance provisions during Recruitment thresh hold of Officers outside Meru County

Contrary to Article 65 (1) (e) and 175 (c) of the Constitutional threshold. Out of the 138 persons employed, only 10 were from other counties and the remaining 92.8% from the dominant ethnic community in the County of Meru. The details are as shown below:-

Regional balance

Name	Workings	Constitutional thresh hold allowable	No employed	Variance
Meru County	70% 138	97	128	31 More
Other Counties	30%138	41	10	31 Less
		138	138	

Gender Balance

Gender	Workings	Constitutional threshold applicable	No employed	Variance
Female	$^{1}/_{3}$ of 138	46	34	12 less
Male	$^{2}/_{3}$ of 138	92	104	12 more
Total		138	138	

Recommendation

The County Executive should always adhere to the Constitutional Provisions whenever recruitments are done on gender and regional balance.

42.0 Allowances

42.1 Irregular Payment of Extraneous Allowance

The County Government requested the Salaries and Remuneration Commission for payments of extraneous allowances to seven (7) security officers attached to the Governor and the Deputy Governor. In response, the Salaries and Remuneration Commission advised that additional information such as cadre of the staff involved as well as nature, scope and circumstance under which they work be forwarded for consideration. However, this letter was not responded to. Interestingly, and against this background, the seven (7) officers were paid a total of Kshs.1,011,150 for the period April to December 2013 without any approval from the commission. The net pay was arrived as follows:-

Item	Amount (Kshs.)
Gross pay -	1,444,500
Tax	(433,350)

Net pay 1,011,150

It was further noted that Kshs.433,350 due to Kenya Revenue Authority was not remitted as expected. It was noted that cheque no.6954 of 19 December 2013, was paid to the County Secretary and a payment schedule prepared in which the seven (7) officers were paid the amount and acknowledged the receipt of the amounts by signing against their names.

It has not been explained why tax due to Commissioner of Domestic revenue was diverted to other uses.

Recommendation

The amount should be recovered from the officers who authorized the irregular payments as the circular used to effect the payments was for the National Assembly and which came in force in year 2008 before the County government were created.

43.0 Irregular Increase of Transport Allowance

The ten (10) Chief Executive Committee members passed a resolution to the effect that they be refunded a flat rate of Kshs.4,000 per day for twenty three (23) working days in a month until the government provides official transport. This was to take care of transport expenses within and outside the Meru County. Accordingly, based on this resolution and in total defiance of the Salaries and Remuneration Commission circular, the members irregularly overpaid themselves a sum of Kshs.5,220,000 within a period of eight (8) months running from May to December 2013.

Recommendation

The County Executive should institute recovery of the overpaid allowances of Kshs.5,220,000 from the Chief Executive Committee members

44.0 Unsupported Expenditures (Traveling Expenses)

The County Government of Meru organized for Meru County stake holders meeting at Safari Park Hotel – Nairobi for 1000 participants on 25 January 2014 and as a result incurred an expenditure of Kshs.1,691,740 which was subsequently settled as follows:-

Department voucher no	Date	Amount Kshs.
02838	6.3.14	766,740
02114	23.1.14	925,000
Total		**1,691,740**

The payment was however not supported by invitation letters, budget plans, documentary evidence of travel (work tickets or bus tickets), signed schedule by participants and it was therefore not possible to confirm whether the stake holders meeting took place. It was also observed that procurement procedures were not adhered to in the procurement of the service.

It was not explained why the stake holder meeting was not held in Meru.

Recommendation

The County Executive should ensure payment vouchers are adequately supported in future and also produces documentary evidence in support of the expenditure or recover the amount from the accounting officer.

45.0 Unjustified Expenditures on foreign trips

According to the expenditure returns, the office of the Governor was allocated Kshs.10,000,000 for use on overseas travel by senior staff and training expenses. Out of this amount, Kshs.5,914,088 had been spent as at 31 March 2014. The figure was arrived at as follows:-

Month	Amount (Kshs.)
October 2013	811,014
November 2013	843,915
December 2013	775,736
January 2014	1,564,710
February 2014	1,818,335
March 2014	100,378
Total	**5,914,088**

However, it was not possible to vouch the expenditure due to non-availability of the relevant payment vouchers. In addition, correspondence file that could have contained request memos, budget proposals, correspondences with the countries visited, itinerary of activities proposed, date of travel and end of journey reports were also not made available for audit review. Moreover, maintenance of both cash books and Vote books was so poor that it was not possible to establish who were involved in these foreign trips and how much they were paid for in terms of transport costs and other allowances.

In the circumstances, the propriety of the expenditure of Kshs.5,914,088 could not be confirmed.

Recommendation

The County Executive should justify with documentary evidence the authenticity and credibility of the expenditures incurred on foreign trips.

46.0 IT Environment

46.1 Integrated Financial Management Information System (IFMIS) and G-Pay

i). The Integrated Financial Management Information System (IFMIS) has been installed at the County Treasury. However, not all transactions were processed through IFMIS.

ii). There was a Local Area Network for IFMIS system in Accounts, Procurement and Finance sections and more than ten employees had been trained on use of the system.

iii). Examination of the IFMIS disclosed that the Meru County Ledger which was produced was not in conformity with the requirements of Paragraphs 5.11.2 and 5.11.3 of Government Financial Regulations and Procedures. The ledger only captured payment numbers, payees' addresses, and date of payment, payees' location and amount. Therefore, it did not follow the prescribed grouping of accounts codes in to four bands namely vote, head, sub head and detailed item analysis for the purpose of identifying or isolating expenditure and revenue items.

iv). Examination of the IFMIS development ledger revealed an expenditure of Kshs.540,484,872 had been incurred as at 31 March 2014. However, scrutiny of the report further revealed that it included Kshs.500,000,000 in respect of exchequer issues on 5 February 2014 and 27 February 2014. Although it was explained that this was due to the fact that the exchequer issues and other payments were debited to the CBK recurrent account, it was not clear why the exchequer issues were treated as expenditure by the IFMIS yet detailed expenditure item analysis for the exchequer issues were not provided. Effectively, the developed IFMIS ledger reflected development expenditure as Kshs.540,484,872 instead of Kshs.40,484,872 representing an error of 1,235%.

v). Further, the IFMIS expenditure report under recurrent vote included exchequer issues to Meru County Imprest Account and Meru County Assembly totaling to Kshs.880,000,000. It was also not clear why the exchequer issues were treated as expenditure by IFMIS yet detailed expenditure item analysis for the exchequer issues were not provided. Effectively, the recurrent IFMIS ledger reflected recurrent expenditureas Kshs.990,315,064 instead of Kshs.110,315,064representing an error of approximately 798%.

vi). Further, scrutiny of the IFMIS ledger revealed that payment vouchers did not bear unique identification numbers relating to both IFMIS ledger and physical vouchers. The payment voucher numbers on the physical voucher should be uniquely traced in the IFMIS ledgers with respect to each payment. Details some of the payments bearing different numbers in the ledger from those in the payment voucher.

vii). The reports printed from IFMIS and referred to as recurrent and development cashbooks were not cashbooks since the payments sides exceeded receipts sides. For example, under recurrent cashbook, receipts totaled Kshs.400,000,000 while payments totaled Kshs.889, 006,264. The undisclosed receipts of Kshs.489,006,264 represented an error of 55%.

viii). Further ,scrutiny of the IFMIS cashbooks revealed that balances carried forward were not indicated and there was no evidence that they were written up and balanced daily, cash on hand verified and subsequently checked by a senior officer. Cash analysis books to match cash balances were not maintained. Therefore, these reports did not serve the purpose of cashbooks.

ix). G- Pay was not used to pay all transactions instead cheques were being used to pay most of the payments.

These irregularities were not explained.

Recommendations

i). The County Executive should ensure that IFMIS ledger reports and other reports are in conformity with the prescribed financial regulations.

ii). The County Executive should ensure that IFMIS ledgers do not treat exchequer issues as expenditure without providing detailed item analysis for the same. This is because when the exchequer issues are expended under the various budgetary items, the expenditure would be captured separately and this may result to double counting.

iii). Payment voucher numbers in the ledger should tally with those in the physical vouchers.

47.0 Debtors

47.1 Unsupported debtors balances

According to the audited financial statements of the former municipal councils of Meru and Maua together with County councils of Meru Central and Nyambene debtors balance for the eight (8) months ended 28 February 2013 stood at Kshs.430,731,900. This amount increased to Kshs.458,951,745 during the four (4) months ended 30 June 2013 but reduced significantly to Kshs.302,822,528 during the nine (9) months ended 31 March 2014. The decrease was however attributed to non-inclusion of contributions in lieu of rates (CILOR) whose figures and records had not been compiled as at the conclusion of audit. The debtors' records were not updated and therefore the accuracy of the balances reflected herein could not be confirmed. Cases were also noted whereby Meru County Hotel and Kenya Methodist University had not paid Kshs.15,030,000 and Kshs.2,340,000 as at 31 March 2014 respectively and despite this, no tangible efforts had been made to have them pay. These debts were inherited from the former councils and no proper handing over was done as required by Transition Authority. Similarly, the County Government of Meru does not have a consolidated debtors ledgers for all the four (4) sub counties. In addition, there exists no policy on provisions of bad and doubtful debts despite the fact that some debts had been outstanding for a long time.

No explanation was given for failure to maintain debtors register.

Recommendation

The County Executive should ensure a debtor's ledger is maintained and updated before the preparation of the financial statements for the sixteen (16) months ended 30 June 2014.

48.0 Non-Current Assets

48.1 Unsupported non-Current Assets Balances

As at 28 February 2013, the value of non-current assets of the former Municipal Councils of Meru and Maua together with former County Councils of Nyambene and Meru Central stood at Kshs.1,124,750,697. These values increased to Kshs.3,152,140,827 in the four (4) months ended 30 June 2013 and include a sum of Kshs.47,020,020 in respect of those assets procured by Meru County Government itself. Against this background, the County Government of Meru did not maintain a Fixed Assets Register for all the assets procured or change ownership documents for the assets previously owned by the defunct local authorities. Similarly, no hand over / taking over report of all the assets and liabilities was compiled in a format recommended by the Transition Authority.

No explanation was given for failure to take over the non-current assets of the defunct local authorities or why fixed assets register was not maintained.

Recommendations

A Fixed Assets register should be maintained and all assets and their value recorded for all the assets and arrangements be made to value and register them in the name of Meru County Government.

49.0 Creditors and Statutory Deductions

49.1 Non Maintenance of Creditors Ledgers, Suspense Accounts and Failure to Setup an Agency Clearing Section

As at 28 February 2013, Creditors balances for the former County Councils' of Nyambene and Meru Central together with Municipal Council of Meru and Maua stood at Kshs.86, 615,312. This balance increased to Kshs.143, 136,585 as at 30 June 2013. It was however noted that creditors' ledgers were not maintained and no invoices, Local Service Orders/Local Purchase orders and creditors schedules were made available for audit. It was therefore not possible to ascertain the indebtness of the county government to various suppliers of goods, works and services at 31 March 2014. Further, the head of accounting unit had not established a suspense/clearance accounting section within the accounting unit to review and clear the various suspense accounts at least once every month. Similarly, suspense accounts relating to temporary imprests, salary advances and other statutory deductions were also not maintained. For example, as at the time of audit, imprest registers indicated outstanding imprests totaling Kshs.27, 329,048. No suspense account was maintained to reflect this amount.

No explanation was given for failure to maintain creditors' ledger.

Recommendations

- The County Executive should maintain records in relation to creditors to the County and submit all the expenditure records relating to these funds for further audit review.

- Maintain relevant suspense accounts and explain /support all balances

50.0 Un supported Debt Resolution Expenditure

A sum of Kshs.78,651,379 were allocated in the budget for settlement of debts that had not been cleared by the defunct local authorities as at 28 February 2013. Consequently, an expensive of khs 25,297,980 was paid as at 30 June 2014. As reflected in a summary schedule produced for audit. However no payment vouchers, settled invoices and ledgers were produced for audit verification. Therefore, the authenticity of the expenditure totaling Kshs.25,297,980 could not be confirmed.

Recommendation

The County Executive should ensure all payments are supported and necessary documents availed for audit review.

51.0 Irregular Award of Car Loans under Mortgage and Car Loans Scheme

The Meru County Loan and Mortgage Scheme Fund BILL NO.3 OF 2014 was passed on 18 February 2014 assented by The Governor.

Sixty three Members of County Assembly were advanced loan of Kshs 5,000,000.00 each totaling Kshs 315,000,000.00 for purchase of Motor Vehicles and mortgage by Capital Savings and Credit Co-operative Society .According to a copy of the Quadripartite Loan Agreement made available, the agreement was made on 24 April 2014 between MCA'S, the SACCO and the Meru County Government as the guarantor .As at 23 May 2015, the County Executives had paid an interest of Kshs. 1,122,916 on behalf of MCA'S. No budgetary provisions had been made for that purpose

The County government guaranteed the loans without a Mortgagee and Loans Scheme being in place as required by the law.

No evidence was availed for audit to show that the loans advanced were utilized for the intended purposes and the vehicles said to have bought by MCA's is registered jointly with the County Government of Meru.

Recommendation

The County executive should unsure that regulations governing the scheme are adhere to.

52.0 General Observations

52.1 Failure to Appoint Accounting Officers

The County Government had incurred an expenditure totaling Kshs.2, 094,370,610 as per the expenditure returns produced for audit. However, there were no formal written appointment letters for AIE Holders as required by Section 5.2.3.2 of the Government Financial Regulations and Procedures. Instead an internal memo from County Secretary to the Chief Officer Finance, was made available for audit but it did not meet the criteria indicated above. In addition, individual appointment letters for AIE Holders were not made.

Therefore, it was not clear how the officers who authorized payments by initialing their signatures on the payment certificates before 31 March 2014 were appointed.

No explanation was given for failure to appoint A.I.E holders as required.

Recommendation

National Treasury circulars and Government Financial regulations and procedures should always be adhered to.

52.2 Failure to Issue AIEs against Expenditures

The County Government had incurred an expenditure totaling Kshs.2,094,370,610 without the County Executive Committee Member for Finance transmitting the General Warrant to all Accounting officers and authorizing them to incur expenditure vide FORMs – E.

No explanation was given for failure by the County Executive Member of finance to authorize accounting officers to incur expenditure as required.

Recommendation

The County Executive Committee Finance Member should henceforth transmit the General Warrant to all Accounting officers and authorize them to incur expenditure vide FORMs –E.

52.3 Failure to Respond to Audit Reports

The office the Auditor-General issued management letters on financial operations of the defunct councils of Meru County including the County Executive itself for the period 1 January to 30 June 2013 as follows:-

No	Name	Letter ref	Date
1	Defunct County Council of Nyambene	EH/AUD/MERU/EX/VOL.1/3	1.11.13
2	Defunct Municipal council of Maua	EH/AUD/MERU/CNTY/EX/VOL.1/4	1.11.13
3	Defunct Municipal council of Meru	EH/AUD/MERU/CNTY/EX/VOL.1/5	1.11.13
4	Defunct County council of Meru Central	EH/AUD/MERU/CNTY/EX/VOL.1/6	1.11.13
5	Meru County Executive	EH/AUD/MERU/CNTY/EX/VOL.1/17	1.11.13

However, none of the letters have been responded to. Similarly, the Auditor General's report ref. AUDIT/SP/A/C/MERU/(16) dated 13 January 2014 that was addressed to the Clerk of the County Assembly and copied to Meru County Governor and the Clerk of the Senate had also not been responded to or action taken.
No explanation was given for failure to respond to and act on audit reports.

Recommendation

The County Executive should ensure issues raised by the Auditor General on its operations are addressed without fail.

52.4 Irregular Increase of Monthly Salaries for the Chief Executive Members

The Chief Executive Committee members under MIN. 50/MCEX/13/1v of a meeting held on 20 August 2013 resolved to increase their monthly salaries by Kshs.60,000 up from Kshs.225,000 to Kshs. 285,000 with effect from 1 August 2013. The payments were made for six (6) months up to 31 January 2014 and effectively discontinued from 1 February 2014. The increase was however found to be irregular as it contravened Gazette legal notice no. 2888 of 28 February 2013 in which the minimum salary entry point for all Chief Executive Committee members was set at Kshs.225,000 p.m. The overall effect of this was irregular over payments totaling Kshs.3,600,000 for the six (6) months.

No explanation was given for the irregular payments.

Recommendation

The County Executive should recover Kshs.360, 000 overpaid to each of the ten (10) Chief Executive Members

Conclusion

The County Government of Meru had challenges in its first year of operations including slow setting up of structures, staffing, and equipping and staff capacity to deliver services to the county residents. These challenges should be overcome by strict adherence to the Constitution, the Public Finance Management Act, 2012, the Procurement Legislation, Regulations and Procedures and Human Resources Management Policies and Procedures.

Edward R.O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

29 May 2015