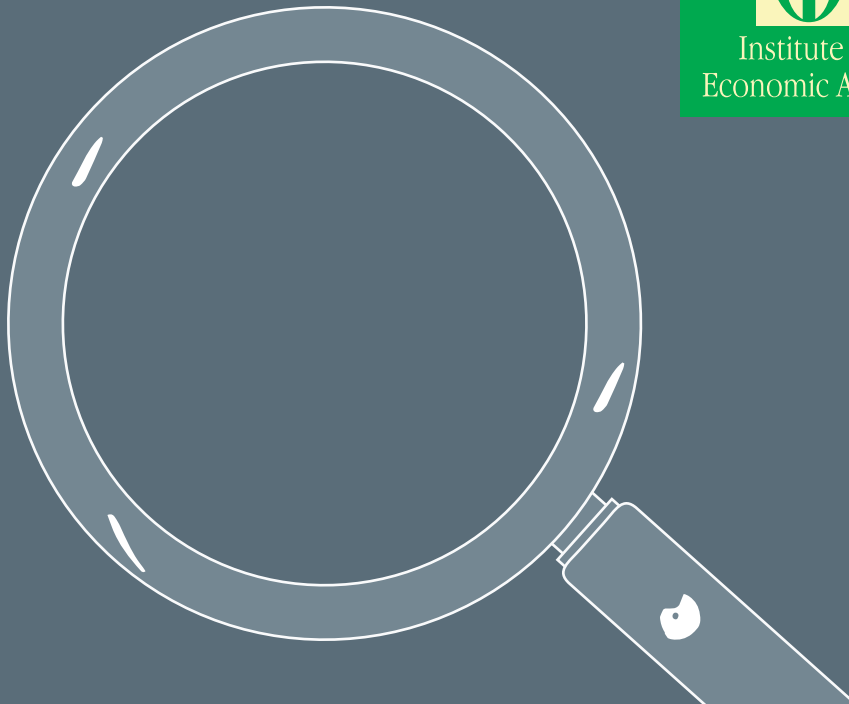




Institute of
Economic Affairs



Analysis of the Auditor General's Reports on the Financial Statements of the Executive and County Assembly of Meru County

2016/2017 - 2017/18 Financial Years



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1. Introduction

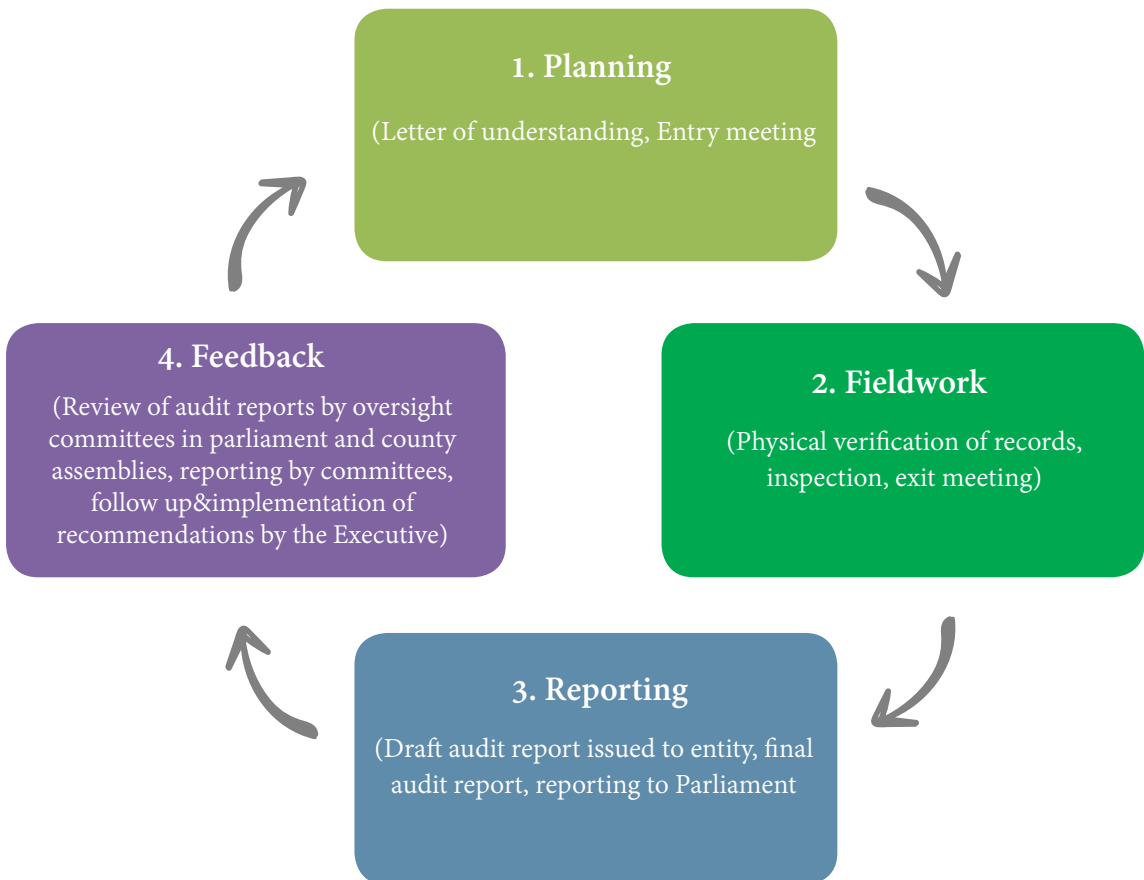
Each year the government sets aside funds for the performance of different functions. Execution of these functions is carried out by the three arms of government and various public-funded agencies. The Office of the Auditor General is established under Article 229 of the Constitution of Kenya 2010, to undertake audits and confirm all public funds are spent **lawfully** and **effectively**.

What is an Audit?

- An audit is the independent examination of an entity's spending to confirm fairness and accuracy of transactions
- Audits are conducted to confirm whether public funds are spent lawfully and effectively

How is the Public Audit Process Conducted in Kenya?

The public audit process is illustrated below:



2. Possible Audit Reports

An audit report is the written opinion of the Auditor, regarding an entity's financial statements¹. The following are the four opinions that can be issued by the Auditor:

Opinion	Meaning
Unqualified	This is a clean opinion. It means the financial statements represent a true and fair view of the entity's spending
Qualified	This opinion is issued where the Auditor finds the statements contain some errors ² which are significant ³ but not widely spread ⁴
Adverse	This opinion is issued where there are errors; both significant and widely spread across the financial statements.
Disclaimer of Opinion	This is issued where the Auditor is unable to form an opinion because sufficient audit evidence was not provided. The lack of evidence implies statements could contain errors both significant and widely spread.

What is an Audit Query?

An audit query is a question posed by the Auditor regarding unlawful transactions identified during an audit.

What does an Audit Query include?

It highlights the **nature of the unlawful spending**, the **amount questioned** and the **consequences** of the action.

¹The term financial statements are defined under key terms on page 14

²Often referred to in audit language as misstatements

³In audit terms-significant errors are said to be material

⁴This refers to the pervasiveness of the misstatements

3. Meru County Executive

What was the audit report/opinion of the Meru County Executive for the FY 2016/17 and 2018/19?

The table below summarises the audit opinion for Meru County Executive

Financial Year	Audit Opinion
2016/2017	Qualified Opinion
2017/2018	Qualified Opinion

What were some key audit queries for the County Executive of Meru FY 2016/17?

The table highlights some of the key audit queries for Meru County Executive for the Financial Year 2016/17.

No.	Queries	Details	Amounts Queried in KES.
1.	Bank balances: unexplained and unreconciled variances	The variance was noted between cash balances reflected in financial statements and bank records.	58,247,630
2.	Undisclosed bank accounts	Three bank accounts namely Meru County Hospital Revenue account, Meru level 5 hospital revenue account and Meru County Agricultural Fund.	Unknown Balances
3.	Illegal bank accounts	No reasons provided to explain why Meru County Executive was operating 18 accounts in commercial banks contrary to the public finance management (PFM) regulations. Accuracy of cash and cash equivalents could not be ascertained.	1,583,481,976
4.	Outstanding imprests	Imprests held by two officers were outstanding for more than 6 months contrary to section 92(5) of the PFM Regulations, 2015.	5,042,500
5.	Irregular emergency fund expenditure	Failure to create an emergency fund as required by the PFM Act, 2012. The emergency fund expenditure was irregular in absence of fund Act and its regulations.	30,343,678
6.	Purchase of motor vehicles	Failure to provide logbooks and other vehicle details like chassis and engine numbers for audit verification.	71,713,799
7.	Unaccounted non-pharmaceutical drugs	Field verification samples revealed that non-pharmaceutical supplies were not recorded in respective health facilities stores contrary to procurement laws.	2,1870,394
8.	Unsupported daily subsistence allowances	Unsupported and irregular payments of daily subsistence allowances.	12,791,350
9.	Nugatory(wasteful) payments to Council of Governors	Expenditure incurred in contravention of section 37 of Intergovernmental Act 2, of 2012 which requires structures in law be provided in annual estimates of National Government	27,907,106

10.	Irregular supply and replacement of generators	Generators at Meru Teaching and Referral Hospital were replaced despite existing ones still working. No technical report was made available on why generators were being replaced.	18,694,427
11.	Irregular recruitment of casual workers	Uncoordinated recruitment of casual workers. No evidence was provided that county public service board regulated the recruitment as per the law.	129,889,324

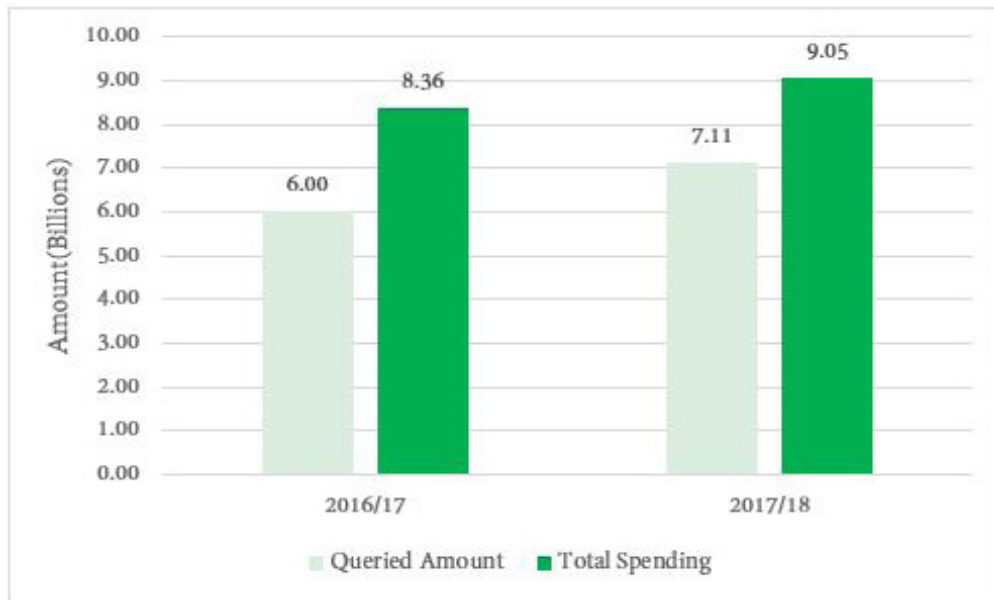
Meru County Executive FY 2017/2018

The table highlights some of the key audit queries for Meru County Executive for the Financial Year 2017/18.

No.	Queries	Details	Amounts Queried in KES.
1.	Variances between figures in financial statements and IFMIS	A variance of KES 2,828,659,466 was paid outside IFMIS, contrary to Section 12 of the PFM Act, 2012.	2,828,659,466
2.	Unaccounted expenditure on purchase of ECO-Tosha Materials	No documentary evidence availed for audit review to show materials had been delivered.	2,500,000
3.	Unsupported training	No approvals from the human resource management and advisory committees, for County Executive to sponsor courses in different institutions.	59,766,952
4.	Unsupported expenditure on fuels, oils and lubricants	No evidence on approvals of money to spend on fuels, oils and lubricants.	22,064,979
5.	Procurement of motor vehicle insurance	The contract did not have a specific time frame of operation or a renewal clause. The validity of the contract was in doubt.	14,970,148
6.	Irregular reallocation of funds	Intercounty transfer of funds was not approved by the county treasurer and county assembly contrary to the law.	126,828,400
7.	Irregular emergency fund expenditure	Meru County Executive did not create an emergency fund as required by the PFM Act, 2012. In the absence of fund Act and its regulations, the emergency fund expenditure was irregular.	61,848,046
8.	Duplicate payment vouchers	745 vouchers worth KES 772,653,448 had duplicate vouchers.	772,653,448
9.	Irregular employment in the office of Governor	Personnel records revealed four unbudgeted positions in the office of the Governor.	3,125,800
10.	Limit on the compensation of employees	Compensation of employees currently at 49% contrary to set the limit of 35% of the total revenue.	4,390,525,721

What was the amount queried in relation to total expenditure?

- 2016/17: 72% of the total expenditure was queried; equivalent to KES 6 billion
- 2017/18: 79% of the total expenditure was queried; equivalent to KES 7.11 billion



4. What could have been the best use of the questioned amount? (Opportunity Costs)

Lawful and effective use of the funds queried could have led to better outcomes, giving the people of Meru County better services and greater value for money.

The following are examples of funds that could have given the population better value:

a) Access to Subsidised Fertilizer

In the 2016/2017 FY, the Meru County Executive operated an imprests account at Kenya Commercial Bank; account number 1140746480 in compliance with section 82(1)(b). This stipulates all county government bank accounts shall be opened at Central Bank of Kenya except for imprest bank accounts for petty cash. However, the Executive paid KES 507,972,145 from the imprest account for expenditures not petty cash in nature; the County Executive breached the law.

If the KES 507,972,145 was used to buy subsidized fertilizer for farmers, 169,325 bags of fertilizer would be purchased, at KES 2,500 per bag. The fertilizers would be sufficient to cater for 84,000 small scale farmers with an acre of land each. This would improve productivity and incomes from the farming they undertake.

b) Recruitment of more Agricultural Extension Officers

In the 2017/2018 FY, Meru County Executive made inter-account transfers of KES 126,828,400 to various accounts. However, the inter-account transfers were not approved by County Treasury, contrary to Section 154 of the PFM Act, 2012. The approvals of the transfers were not sought from the County Assembly by the County Treasurer contrary to Section 47 and 48 of the PFM County Government Regulations, 2015. In those circumstances, the Executive was in breach of the law.

If KES 126,828,400 was spent to hire additional Agricultural Extension officers, the county would have hired an additional 211 officers paying them a monthly salary of KES 50,000. This would improve productivity outcomes in the agricultural sector, especially in the tea and dairy sector.

5. Meru County Assembly

What was the audit report/opinion for Meru County Assembly for the FY 2016/17 and 2017/18?

Meru County Assembly

Financial Year	Audit Opinion
2016/17	Qualified Opinion
2017/18	Qualified Opinion

What were some key audit queries for the County Assembly of Meru for the FY 2016/17?

The table highlights some of the key audit queries for the Meru County Assembly for the Financial Year 2016/17.

No.	Queries	Details	Amounts Queried in KES.
1.	Inaccurate financial statements	Unexplained and unreconciled overstatement of financial statements.	27,910,162
2.	Excess and unbudgeted expenditure	Unbudgeted reimbursement of medical bills.	1,317,453
3.	Unsupported ward office expenses	Unsupported outstanding imprests	9,900,000
4.	Unsupported foreign travel expenditure	The foreign travel is not supported by back to back office reports, or evidence of attendance of conferences and seminars cited.	44,947,387
5.	Unconfirmed pending bills	LPOs, invoices and contracts were not made available to confirm correctness and authenticity of pending bills.	10,245,916
6.	Under expenditure of recurrent and development budget	The counties did not receive promised and expected service equivalent of the under expenditure	18,882,889
7.	Irregular recruitment of ward county employees	Relevant documents like advertisements for posts, shortlisted applicants, selection minutes and score sheets for interviewing applicants were not readily available.	35,160,767
8.	Nugatory(wasteful) contributions	Lack of supporting documents for receipt of funds by County Assemblies Forum, specific activities and basis for such payments	2,700,000
9.	Incomplete fixed assets register	Lack of supporting documents, failure to repair motor vehicles, failure to avail ownership documents, unexplained and irreconcilable variances.	179,117,947
10.	Unreconciled variances	Unreconciled and unexplained variances between cashbook and bank reconciliations.	160,234

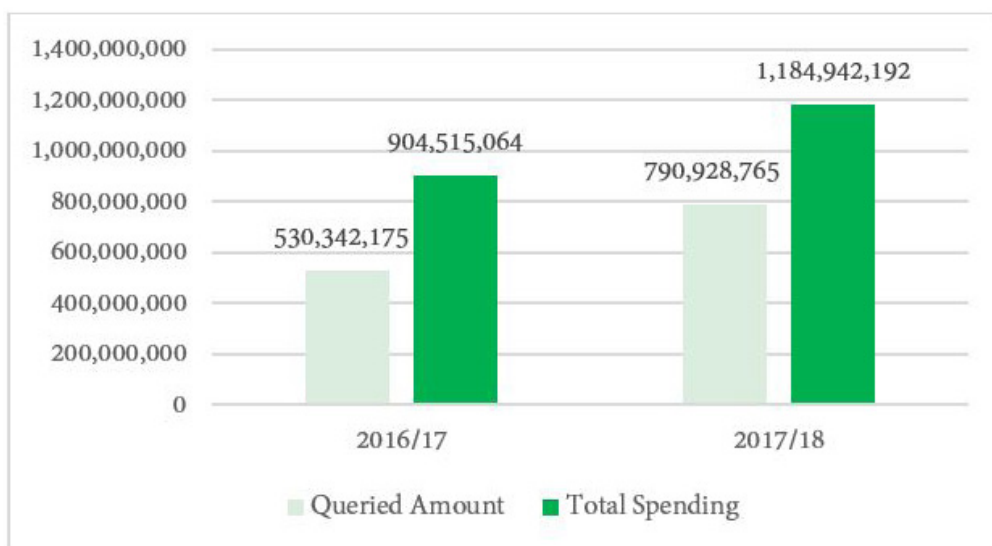
Meru County Assembly FY 2017/2018

The below table highlights some of the key audit queries for Meru County Assembly for the Financial Year 2017/18.

No.	Queries	Details	Amounts Queried in KES.
1.	Inaccurate financial statements	Respective supporting ledgers on the use of goods and services were irregularly charged to compensation of employees.	8,171,209
2.	Incomplete fixed assets register	Unexplained and irreconciled variances.	179,117,947
3.	Doubtful expenditure	Payment vouchers lacked vote book certificates and the voucher numbers.	1,351,400
4.	Unsupported expenditure	Domestic travel lacked supporting documents such as attendees schedules, invitation letters, work/bus tickets and back to office reports were not availed for audit verification.	27,010,040
5.	Unsupported hospitality supplies and service expenditure	Money was paid without supporting documents such as attendance schedules, invitation letters, work/bus tickets and back to office reports.	11,319,240
6.	Nugatory(wasteful) contributions	No documentary evidence was provided for audit review to support expenditure, specific activities being funded and the basis for such payments.	2,700,000
7.	Lack of training needs assessment	No evidence was provided that the county assembly needed training needs assessment.	840,000
8.	Wasteful training expenditure	Two MCAs were paid per diems and travel expenses to cover costs for training on strategic communication skills for women leaders. Yet the course is readily available in Kenyan Universities. The payment was unjustified.	1,009,684
9.	Induction of MCAs and Staff	The Assembly conducted two similar induction training in Nairobi for KES 12,782,150 and Mombasa for KES 10,719,590 for a similar group in a year.	23,501,740
10.	Tender Evaluation Expenditure	There was no justification for tender evaluation meetings held outside Meru County; these payments made for per diems were not justified.	2,633,600

What was the amount questioned in relation to the total spending by the Assembly?

- **2016/2017:** 59% of the total expenditure queried; equivalent to KES 530 million
- **2017/2018:** 67% of the total expenditure queried; equivalent to KES 790 million.



6. What could have been the best use of the questioned amount? (Opportunity Costs)

The following are examples of funds which could have given the population better value if properly accounted for:

- a) The total amounts queried in 2016/17 if properly used, would have funded the budget for compensation of employees in the same year which is equivalent to KES 507,069,927.
- b) The total amounts queried in 2017/18 would have funded ninety-eight per cent of the purchase of goods and services for the whole Assembly, acquisition of assets and compensation of hires within the financial year.

7. Which channels can citizens use to hold the responsible leaders to account?

1. The Constitution and various Acts of Parliament provide for the avenues for public participation, in the planning and budget cycle. From budget formulation to oversight (audit) process.
2. Some legal channels available for the public to hold leaders to account include:
 - a. Petitions to Parliament; written, must demonstrate effort of trying to resolve;
 - b. Submissions both oral and written (Memorandum) during public hearings;
 - c. Parliament and Assembly Committee inquiries;
 - d. Engagement during vetting and approval of nominees for appointments to county public offices as may be required by law; and
 - e. Engagement during impeachments/removal of state officers like the governor, Speaker, County Executives and County Public Service Board.
3. The following bodies are further mandated to provide oversight. Citizens can use the available public participation processes within the agencies, to lodge formal complaints or request for inquiries into corrupt practices:
 - a. Ethics and Anti-Corruption Commission;
 - b. Director of Public Prosecutions;
 - c. Director of Criminal Investigation;
 - d. Office of the Auditor General; and
 - e. National Treasury.

Definition of Key Terms in Audit Reports

Financial Statements	These are formal records of the financial activities and position of an entity. The structure and contents of financial statements are governed by various laws and regulations, including international financial reporting standards.
True and fair	‘True and fair’ is a concept concerning a set of financial statements that implies there are no significant errors and misrepresentations in the records. Financial statements will not be ‘true and fair’ unless the information they contain is adequate in terms of both quality and quantity to satisfy the reasonable expectations of users of the financial statements.
Internal control systems	This refers to the processes designed, implemented and maintained by those charged with governance and management. This provides reasonable assurance about the achievement of an entity’s objectives concerning the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
Unsupported expenditure	This is spending that lacks adequate documentation, such as approvals, authorizations, receipts and vouchers etc. A transaction is also unsupported where some goods and services cannot be verified as received.
Excess/Unauthorized expenditure	This refers to overspending without authorization. In this case, spending is above the budget for a particular programme, but there is no supplementary budget or other authorization to exceed the spending limit in law. .
Irregular expenditure	This is spending incurred in violation of the relevant legislation, including the Public Finance Management Act, 2012, County government Public Finance Management Regulations, 2015, Public Procurement and Asset Disposal Act, 2015 or any other Act of Parliament.
Value for money	The economic (spending less), efficient (spending well) and effective (meeting objectives) utilization of resources.
Pending Bills	These are monies or arrears yet to be paid to suppliers for goods delivered or services rendered to a given entity.



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