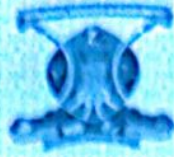


COUNTY GOVERNMENT OF MURANG'A



COUNTY ASSEMBLY OF MURANG'A

THIRD ASSEMBLY- SECOND SESSION

COMMITTEE ON FINANCE AND ECONOMIC PLANNING
REPORT ON THE FINANCIAL STATEMENTS FOR THE MURANG'A MUNICIPALITY
FOR THE PERIOD ENDED 30th JUNE 2023

Clerk's Chambers,
Murang'a County Assembly Buildings,
MURANG'A.

OCTOBER, 2023

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EXECUTIVE SUMMARY

The Urban Areas and Cities Act of 2011, amended in 2019 establishes the Murang'a Municipality as an entity of the county government. The financial year 2022/23 Murang'a Municipality 4th Quarter Report and statement of expenditure were prepared to fulfill the requirements of section 180, Public Finance Management Act, 2012 which provides that at the end of each financial year, the Accounting Officer of the Municipality established by Urban Areas and Cities Act No. 13 of 2011 shall prepare financial statements in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board.

The report highlights the financial management of the municipality in the Financial Year 2022-23. County Treasury disbursed kshs 6.18 million to the municipality and had a balance brought forward from the FY 2021-22 of Kenya Urban Support Program (UDG) grant amounting to Kshs 35 million to implement budget. From that grant, municipality settled pending bills amounting kshs 33.7 million owed to the contractor for the construction various roads within the municipality. During the FY 2022-23, municipality rehabilitated the Karii Dumpsite access road under development expenditure.

To improve the financial management of the municipality; the committee recommends that the CECM-Finance comes up with a formula of adequately resourcing the municipality and other urban areas, financial autonomy of the Municipality by enhancing the role of the accounting officer in the budget implementation and decentralization of the services from the parent department.

Signed..... Date.....

Hon. John Kibaiya Ngugi

CHAIRPERSON, FINANCE AND ECONOMIC PLANNING COMMITTEE

1.0 PREFACE

Hon. Speaker, on behalf of the Finance and Economic Planning Committee, I am pleased to present to this House, the committee report on the financial statements for the Murang'a Municipality for the year ended June 30th 2023. The Financial Statements were tabled on August 1st, 2023 and stood committed to the Finance and Economic Planning Committee for consideration. The Committee scrutinized the financial statements and sought to know how the municipality expended public funds during the FY 2022-23 and made recommendations for better financial management going forward.

1.1 Committee establishment and mandate

Hon. Speaker, pursuant to Standing Order 204(5), the Finance and Economic Planning Committee is mandated among other functions to: -

- a) Investigate, inquire into and report on all matters relating to the mandate, management, activities, administration, operations and estimates of the Finance Department.
- b) Study the programme and policy objectives of the Finance Department and the effectiveness of the implementation.
- c) Study and review all county legislation relating to Finance and Economic Planning.
- d) Study, assess and analyze the relative success of the Finance & Economic Planning Department as measured by the results obtained as compared with their stated objectives.
- e) Investigate and inquire into all matters relating to the Finance Department as measured by results obtained as compared with their stated objectives.
- f) Vet and report on all appointments where the Constitution or any law requires the Assembly to approve.
- g) Make reports and recommendations to the Assembly as often as possible, including recommendation of proposed legislation.

1.2 Committee Membership

The Committee comprises of the following Members:-

- | | |
|----------------------------|---------------------|
| 1. Hon. John Kibaiya Ngugi | -Chairperson |
| 2. Hon. Alex Wanyoike | -Vice - Chairperson |
| 3. Hon. Francis Kamau | -Member |
| 4. Hon. Morris Thuku | -Member |
| 5. Hon. Steven Muigai | -Member |
| 6. Hon. Charles Karina | -Member |
| 7. Hon. Thomas Muteti | -Member |
| 8. Hon. Hilary Muigai | -Member |
| 9. Hon. John Kamau Munyua | -Member |
| 10. Hon. Margaret Gichia | -Member |
| 11. Hon. Pauline Muchiri | -Member |
| 12. Hon. Esther Nyawira | -Member |
| 13. Hon. Pauline Njeri | -Member |
| 14. Hon. Jane Mukami | -Member |
| 15. Hon. Gladys Waikau | -Member |
| 16. Hon. Loise Muthoni | -Member |

1.3 Committee Secretariat

- | | |
|--------------------|---------------------------------------|
| 1. Jackson Kinyua` | -Clerk Assistant/ Head of Secretariat |
| 2. Kenneth Cubi | - Hansard Reporter |
| 3. Esther Wangechi | - Fiscal Analyst |
| 4. Eunice Wanjiru | -Sergeant-at- Arms |

2.0 BACKGROUND

Hon. Speaker, Murang'a Municipality is an entity of the Murang'a County Government established by the charter under the Urban Areas and Cities Act (UACA) (2011, amended in 2019). Its main purpose is the general management of Murang'a Town and its environs to ensure quality services are provided. The municipality is run by a Board which was appointed with the approval of the County Assembly.

Section 148 (1) PFM act provides that County Executive Committee Member for Finance shall, except as otherwise provided by law, in writing, designate accounting officers to be responsible for managing the finances of the county government entities as is specified in the designation. Section 148 (2), PFM act further provides that except as otherwise stated in other legislation, the person responsible for the administration of a county government entity, shall be the accounting officer responsible for managing the finances of that entity.

The Municipality Manager, who is the designated accounting officer of Board, submitted this financial statements in accordance with Section 170 of the PFM Act, which provides that an Accounting Officer of an urban area shall exercise the functions and powers assigned to an accounting officer in terms of this Act; and be responsible and accountable to the county assembly for the financial management and administration of the urban area or city.

3.0 EXAMINATION OF THE STATEMENTS

Hon. Speaker, the following challenges affected most of the county government entities in their financial management and budget implementation during the Financial Year 2022-23.

- a) Transitioning from the second county government to a of a new administration
- b) Delayed disbursement of the county funds from the National Treasury
- c) Withdrawal by International Development Partners for fear of election chaos
- d) Low revenue collection from own sources due to economic shocks and high cost of living

4.0 PRINCIPLES TO BE OBSERVED BY URBAN AREAS OR CITIES IN MANAGING PUBLIC FINANCES

In managing finances, the Accounting Officer of the Murang'a municipality shall observe principles set out under section 174 of the PFMA, which includes

- a) the actual expenditure on the personnel shall not exceed a percentage of their allocation to be prescribed by the County Assembly;
- b) on an annual basis the urban area's or city's recurrent expenditure shall not exceed its revenue;
- c) in the medium term, the recurrent expenditure may not exceed a percentage of total revenue, which will be approved by the county assembly;
- d) an urban area's or city's debts are maintained at a sustainable level; and
- e) Over the medium term, the proceeds of borrowing by an urban area or city are used only for purposes of financing development expenditure and not recurrent expenditure.

Hon. Speaker, Principles of Public Finance under Article 201 of the Constitution informed the scrutiny. Article 201 (e) provides for financial management to be responsible and fiscal reporting to be clear. In this regard, the committee invited the Municipality Manager on March 28th 2028 to seek clarification on the financial statements.

5.0 REVENUE PERFORMANCE

1. In FY 2022/23, the Murang'a Municipality received Kshs. 6,181,548 accounting for receipts from the county treasury/exchequer releases under Note 1. The same is disaggregated into Kshs. 1,709,400, Kshs. 86,888, Kshs. 2,284,560 and Kshs.2, 100,700 as amounts received for the first, second, third and fourth quarter respectively.

6.0 MUNICIPALITY EXPENDITURE REVIEW

1. The Municipality spent Kshs. 35.63 million on development and recurrent programmes in the reporting period, representing 14.3 per cent budget absorption for the FY 2022-23.

2. Disclosed under Note 5, operations and maintenance which expended Kshs 5.54 million as indicated in the table below.

No.	Expenditure Item	Amount Kshs.
1.	Domestic travel and subsistence	61,000
2.	Printing, advertising and information supplies	210,000
3.	Training expenses	1,971,000
4.	Hospitality Supplies and services	83,000
5.	Other operating expenses	396,300
6.	Office and general supplies and services	220,075
7.	Board allowances	1,947,000
8.	Routine maintenance- Solid waste management	334,000
9.	Public participation	316,750
	Total	5,539,125

3. In terms of development, Municipality spent Kshs. 29.97 million on acquisition of assets which is explained under Note 10 as construction of roads within the municipality being Quarter at Kshs 26.54 million and Quarter Three where municipality incurred additional expenditure related to infrastructure of Kshs 3.43 Million.
4. During our meeting with the Municipality Manager on March 28, 2023, it was revealed that the expenditure in question relates to upgrading to bitumen standards of three roads under the Kenya Urban Support program (KUSP), the Urban Development Grant (UDG) component in respect of FY 2021/22. The Urban Development Grant (UDG) is for establishment of physical investments and provision of basic services at the urban board level.
5. According to the statement of expenditure , the contract sum was Kshs. 35.51 million for upgrading to bitumen standards including parking, drainage, street lighting for JCT Amica Bank Building access road, JCT Road behind Magunas Wholesalers and JCT brewery Depot – JCT Murang’a High School link Road.

6. Disclosed under Note 11, are the finance costs which are cost of transactions amounting to Kshs 11, 128. This being Kshs. 7,680, Kshs. 1,398, Kshs. 840 and Kshs.1, 210 for the first, second, third and fourth quarters respectively.

7.0 PENDING BILLS

7. Under Note 17, the Municipality reports of pending bills amounting to Kshs. 8.35 million for recurrent and development activities.
8. The said bills comprise of kshs. 3.51 million spent in construction of civil works at kshs 2.96 million, supply of goods at Kshs 326,000 and Kshs 227,750 for supply of services respectively.
9. Under Note 17.2, members of the Board and staff claims amounted to Kshs 4.3 million. This included staff claims of Kshs. 415, 555, Board members at Kshs 689, 250 and allowances related to attendance to Kisumu Africities Summit held on May 2022 amounting Kshs. 1.2 million.
10. Under Note 17.3, Municipality reported unremitted statutory deductions in terms of Income Tax /PAYE owed to the KRA to the tune of Kshs 513, 300.

7.1 Settlement of pending bills

11. During the year, pending bills amounting to Kshs.33, 741,646 were settled by Municipality. This was in respect to construction and upgrading to bitumen standard of JCT Amica Bank Building access road, JCT road behind Magunas wholesalers and JCT brewery Depot – JCT Murang’a High School Link road.
12. The project had two components; construction of the roads and additional storm water drainage works.

Table 1 . Kenya Urban Support Program (Urban Development Grant) statement of expenditure.

Project	Proposed construction and upgrading to bitumen standard of JCT Amica Bank building access road , JCT road behind Magunas Wholesalers and JCT brewery depot access road
Name of the contractor	Spinners Ventures LTD
Local Purchase Order No	MM/001/2021-2022
Description of Goods, Works or Services	Release of all certificates No. 1,2,3 & 4
Contract sum	Kshs. 35,512,994
Cumulative amount paid	Kshs. 33,741,646
Outstanding amount	Kshs. 33,737
Completion status	95%

13. The contractor received payment in three tranches with the completion status at 95 % for the project.

Table 2. Payment schedules for the Project

Certificate No.	Amount Paid Kshs.	Date of Payment
Interim Certificate 1	5,511,730	16 th June 2022
Interim Certificate 2	23,407, 273	30 th June 2022
Interim Certificates 3 & 4	1,686,867	5 th January 2023

14. There was additional storm water drainage works component of the project which was paid on July 1, 2022 at a cost of Kshs 1.7 million. This came as a result of the complaint from members of public.

8.0 SUMMARY OF FIXED ASSET REGISTER

15. Annex 3 to the financial statements reflects a balance of Kshs. 457. 14 million in respect of historical cost of assets as at 30th June, 2022. This comprises of Land at Kshs.127 M, Building and structures at Kshs. 255.63 Million, Transport equipment Kshs. 49.6 Million, Office equipment, furniture and fittings Kshs. 8.5 Million, ICT equipment at Kshs. 11.87 Million and Machinery at Kshs.4.45 Million. This asset base is what is held by the county treasury and reported in financial statements.

9.0 TRANSFER FROM THE COUNTY TREASURY/EXCHEQUER RELEASES

FY	Budgeted Amount Kshs.	UDG (Urban Development Grant) Kshs.	UIG (Urban Institutional Grant) Kshs.	Operation (County Treasury Exchequer Releases) Kshs.	Total Kshs.	% Budget Utilization
2018/2019		62,436,000	8,001,000	NIL	70,437,000	
2019/2020	90,000,000	44,657,794	33,200,000	9,606,808	87,464,602	97.2%
2020/2021	91,880,000	9,220,910	8,800,000	2,005,000	20,025,910	21.80%
2021/2022	157,036,084	25,468,484	Nil	3,200,000	28,668,484	18.30%
2022/2023	132,039,147			4,287,800	4,287,800	3.25%

Source; Murang'a Municipality

16. The Municipality received a total of Kshs. 70,437,000 from the Kenya Urban Support Programme (KUSP – World Bank) during 2018/2019 Financial Year. During the Financial year 2019/2020, the Municipality received a total of Kshs 87,464,602 inclusive of Kshs 9,606,808 from the County exchequer. Similarly, during the financial years 2020/21,

2021/2022 and first half of 2022/23, the Municipality received 2M, 3.2M, and 4.2M respectively from the County Exchequer.

10.0 COMMITTEE OBSERVATIONS

1. During the reporting period, expenditure on employee compensation could not be established because the Municipality staff had not been mapped in the IFMIS system. This has meant that the accounting officer's obligations in respect of the payroll have not been met during the reporting period because staff were linked to the payroll at the Public Service and Administration. This hinders oversight and accountability mechanisms in terms of rationalizing the payroll costs in running for the municipality.
2. Low absorption of recurrent budget as indicated by the expenditure of Kshs. 5.66 million from the annual development budget allocation of Kshs. 168 million. This recurrent expenditure represented a meagre 3.36 per cent of the annual recurrent budget. This has meant that critical operational services could have ground to a halt during the reporting period.
3. Section 148, PFMA provides that the CECM- Finance ensures that there is a designated accounting officer of a county government entity. Appreciably, the CECM- Finance has since designated an accounting officer effective July 1, 2023. The previous arrangement where budget implementation was not under purview of the accounting officer during the reporting period, undermined the entity's operations through micro-managing by County Treasury and diversion of its budget.
4. Municipality has been receiving funds as itemized budget in the line Ministries of Land, Environment, Public Service, Finance and Infrastructure rather than getting grants directly to perform the decentralized services. The lack of financial autonomy led to lack of funding for budgeted public services. As well, this hampers the independence of the Board Members and management of the Municipality to make strategic and binding decisions on service delivery.
5. To defray service provision costs, section 172 of the PFM Act provides that urban areas are expected to retain revenue from rates, fees and charges. The said provision anticipates that urban areas and cities shall be allocated funds in proportion to the

relative per capita revenue generated from the built-up locations but this has not been the case because of centralized financial management system.

6. Failure to keep proper books of account meant that the Murang'a Municipality depended on the Accountants who are seconded from the Finance & Economic Planning Department for preparation of vouchers with no clear distinction as to which payments relate to the municipality and county departments. Municipality maintains the special purpose accounts meant for donor funding with little to show from the municipality operational accounts by way of negligent exchequer releases from the County Treasury.
7. Murang'a municipality is authorized to collect taxes and fees on the basis of sections 104 (d) and 158 (1), PFMA. From the Financial statements, it is not clear how the collected revenue within the municipality was accounted for as it does not form part of the report.
8. Additions to the fixed asset register in terms of roads constructed during the FY 2022-23 are not reflected, rendering the fixed asset register as not a true and fair representation of entity's financial position.

11.0 RECOMMENDATIONS

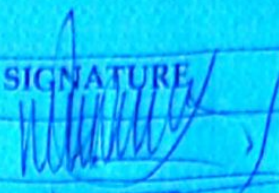


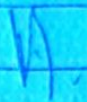
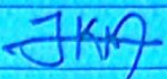
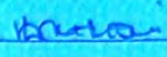
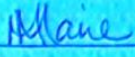
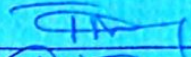


The committee gives the following recommendations for an effective financial management going forward;

1. That the CECM – Finance should put in place the financing framework to implement section 173 ,PFM Act ,2012 to adequately resource the municipality and other urban areas in tandem with the service demand, responsibilities and incentivize revenue collection.
2. That, in designating the Accounting Officer for the Municipality, the CECM-Finance shall ensure there is accountability on delivery of key projects and programmes commitments, decentralized budget implementation in terms of procurement of goods, works and services and settling of pending bills.
3. That, the County Executive Committee Member for Public Service and Administration should send a detailed information on steps being made on the decentralization of the payroll for the municipality staff. This include completion of the IFMIS mapping to allow the Municipality Manager autonomy to undertake statutory payroll obligations.

4. That the County Attorney shall develop legal instruments that grants the municipality the semi – autonomous status with well-defined functions as provided for by the charter within two months of adoption of the report.
5. That the Office of the County Secretary should ensure that the Municipality is fully operational with distinct functions delinked from parent departments save for policy and legislative formulation.
6. That, the County treasury shall allocate an additional budget to implement wide range of services in the strategic plan as contemplated under section 175, PFM Act in the ensuing Financial Years.

4. That the County Attorney shall develop legal instruments that grants the municipality the semi – autonomous status with well-defined functions as provided for by the charter within two months of adoption of the report.
5. That the Office of the County Secretary should ensure that the Municipality is fully operational with distinct functions delinked from parent departments save for policy and legislative formulation.
6. That, the County treasury shall allocate an additional budget to implement wide range of services in the strategic plan as contemplated under section 175, PFM Act in the ensuing Financial Years.

ADOPTION OF THE REPORT

NO.	NAME	DESIGNATION	SIGNATURE
1.	Hon. John K. Ngugi	Chairperson	
2.	Hon. Alex W. Wanyoike	Vice - Chairperson	
3.	Hon. Francis K. Kamau	Member	
4.	Hon. Morris Thuku	Member	
5.	Hon. Charles M. Karina	Member	
6.	Hon. Steven Muigai	Member	
7.	Hon. John Kamau Munyua	Member	
8.	Hon. Loise Mary Muthoni	Member	
9.	Hon. Margaret W. Gichia	Member	
10.	Hon. Peter Murigi Ngugi	Member	
11.	Hon. Jane Mukami	Member	
12.	Hon. Thomas Muteti	Member	
13.	Hon. Gladys Wambui Waikau	Member	
14.	Hon. Hillary Muigai Muchoki	Member	
15.	Hon. Pauline Njeri Muchiri	Member	
16.	Hon. Esther Nyawira Kamindo	Member	