

# **REPORT OF THE AUDITOR-GENERAL ON COAST DEVELOPMENT AUTHORITY FOR THE YEAR ENDED 30 JUNE 2017**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of Coast Development Authority set out on pages 23 to 50, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Coast Development Authority as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with Coast Development Authority Act, Cap 449 of laws of Kenya.

In addition, as required by Article 229 (6) of the Constitution, based on the procedures performed, except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, I confirm that, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

### **Basis for Qualified Opinion**

#### **1. Service Deposit**

As previously reported, included in the receivables from exchange transactions balance of Kshs.22,333,430 and as detailed in note 16 to the financial statement for the year ended 30 June 2017 is a service deposit of Kshs.221,250 being advance payment for purchase of computers in the year 2009/2010. Review of the status during the audit review indicated that the computers were not received during the year under review. Available information indicates that the supplier has since closed down business.

In the circumstance, recoverability of the advance payment of Kshs.221,250 or receipt of the computers is uncertain.

#### **2. Property, Plant and Equipment**

As reported in previous years, property, plant and equipment balance of Kshs.362,952,354 as at 30 June 2017 (2015/2016 – Kshs.377,242,949) excluded the

aggregate value of nine (9) parcels of land located in Kwale, Kilifi, Taita Taveta and Tana River Counties. These lands are yet to be surveyed as the Authority has not settled the survey fees due. Further, the Authority only has allotment letter on the said parcels of land as proof of ownership. Also, the land rates payable has not been determined nor provided for in these financial statements.

Consequently, the accuracy and completeness of the carrying values of the property, plant and equipment totaling to Kshs.362,952,354 as at 30 June 2017 could not be confirmed.

### **3. Trade and Other Payables from Exchange Transaction**

#### **3.1 Creditors**

The statement of financial position reflects trade and other payables from exchange transactions balance of Kshs.32,565,498 as detailed in note 22 to the financial statements as at 30 June 2017. Included in this balance is Kshs.27,365,998 in respect to creditors. However, the creditors age analysis availed for audit revealed that an amount of Kshs.19,822,817 have remained unpaid for over four (4) years. Failure to pay creditors on time may affect Authority's service delivery to residents of coast region and may lead to unnecessary litigations from creditors.

Consequently, it has not been possible to ascertain that the creditors balance of Kshs.32,565,498 is fairly stated as at 30 June 2017.

#### **3.2 Land Balance Payable**

The statement of financial position reflects trade and other payables from exchange transactions balance of Kshs.32,565,498 as at 30 June 2017. Included in this balance is Kshs.5,199,500 in respect to Land balance payables. Records availed for audit revealed that the purchase price of one of the piece of land (Mwapula/Magogoni plot no. 432/1211) of 49 acres was for Kshs.9,800,000 as per the sales agreements, and the entity paid Kshs.4,600,500 and had an outstanding balance of Kshs.5,199,500 as at 4 August 2014. Further court case on the said parcel of land is ongoing. However, the Authority did not disclose about the court case in the financial statement nor any likely contingent liability emanating from the court case in relation to the said land.

In the circumstances, the ownership of the parcel of land (Mwapula/Magogoni plot no. 432/1211) of 49 acres and land payable balance of Kshs.5,199,500 as at 30 June 2017 could not be confirmed.

#### **3.3 Unremitted VAT**

Note 23 to the financial statements for the year ended 30 June 2017 reflects trade and other payables from non-exchange transactions balance of Kshs.16,130,622. Included in this balance is Kshs.2,821,944 in respect to VAT which as at the time of audit it has not been remitted to the commissioner of VAT. Late remittance of the said

amount attracts a penalty as per Section 83(1) of Tax Procedures Act, 2015 which states that a person who submits a tax return after the due date shall be liable to a penalty of twenty-five percent of the tax due or ten thousand shillings whichever is higher.

Consequently, the Authority is in breach of the law.

### **3.4 Audit Fees**

Note 23 to the financial statements for the year ended 30 June 2017 reflects trade and other payables from non-exchange transactions balance of Kshs.16,130,622. Excluded in balance is Kshs.1,460,360 owed to the Office of the Auditor General. Further, this amount has not been disclosed separately in the financial statements and further, the same has been outstanding since the 2015/2016 financial year. This is contrary to Public Audit Act 2015. Consequently, the Authority is in breach of the Law.

## **4. Receivables from Non-Exchange Transactions**

### **4.1 Outstanding Imprests**

The statement of financial position reflects receivables from non-exchange transactions balance of Kshs.45,713,966 as detailed in note 17 to the financial statements for the year ended 30 June 2017. Included in this balance is Kshs.29,525,938 in respect of outstanding imprests due to employees. However, imprest balance of Kshs.24,333,402 have been outstanding for more than one year contrary to Section 92(5) of The Public Finance Management (National Government) Regulations (2015) which states that a holder of a temporary imprest shall account or surrender the imprest within seven (7) working days after returning to duty station.

Consequently, the Authority is in breach of the law and the recoverability of outstanding imprest of Kshs.29,525,938 for the year ended 30 June 2017 could not be confirmed.

### **4.2 Other Debts**

As previously reported, receivables from non-exchange transactions include an amount of Kshs.45,713,966 is Kshs.123,734 advanced to other Regional Development Authorities and which has been outstanding for more than five years. No documentary evidence has been availed for audit review to show how the lending was done and other terms and conditions for the lending. Also, an analysis of other advances amounting to Kshs.275,508 has not been provided for audit review. Under the circumstance, the accuracy and validity of the receivables from non-exchange transactions balance of Kshs.45,713,966 as at 30 June could not be confirmed.

## **5. Project Expenses**

Note 10 to the financial statement for the year ended 30 June 2017 reflects project expenses balance of Kshs.28,474,600. Further, note 6 to the financial statements reflects other income of Kshs.17,321,806 which directly relates to these projects. There was therefore a net outflow of resources from the project of Kshs.11,152,794. This brings into question the validity and sustainability of the projects.

Consequently, the validity and propriety of the project expenditure of Kshs.28,474,600 for the year ended 30 June 2017 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Coast Development Authority in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my except for opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, I have determined that there are no other Key Audit Matters to communicate in our report.

### **Other Matter**

#### **1.0. Budget Control and Performance**

During the year under review, the Authority had a budget of Kshs.534,000,000 while spending a total of Kshs.474,000,000 resulting in an overall under expenditure amounting to Kshs.60,000,000 or 11% not utilized as summarized below:

| <b>Item</b>               | <b>Approved Budget '000'</b> | <b>Actual Expenditure '000'</b> | <b>Over Utilization '000'</b> | <b>Under Utilization '000'</b> | <b>% Utilization</b> |
|---------------------------|------------------------------|---------------------------------|-------------------------------|--------------------------------|----------------------|
| Compensation of Employees | 141,000                      | 178,000                         | 37,000                        |                                | 26                   |
| Goods and Services        | 164,000                      | 103,000                         |                               | (61,000)                       | -37                  |
| Finance Costs             | -                            | 1,000                           | 1,000                         | 1,000                          | 100                  |
| Other Payments            | 196,000                      | 159,000                         |                               | (37,000)                       | -19                  |
| Grants and Subsidies paid | 33,000                       | 33,000                          | -                             | -                              | 0                    |
| <b>Total</b>              | <b>534,000</b>               | <b>474,000</b>                  | <b>38,000</b>                 |                                |                      |

|  |  |  |  |          |  |
|--|--|--|--|----------|--|
|  |  |  |  | (98,000) |  |
|--|--|--|--|----------|--|

The management has not provided satisfactory explanation for the failure to utilize all approved budgetary provisions of Kshs.98,000,000. Underutilization of budget results in non-implementation of planned development projects negatively affecting community development and empowerment. Further, approval for the excess expenditure of Kshs.38,000,000 was not availed for audit review.

Therefore, the management was in breach of the law on Management Act, 2012 on approval of expenses of all State Corporations

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to sustainability of services and using applicable basis of accounting unless the management either intends to liquidate the Authority or to cease operations, or have no realistic alternative but to do so.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

Those charged with governance are responsible for overseeing the Authority's financial reporting process.

### **Auditor-General's Responsibilities for the Audit of the Financial Statements**

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, and for the purpose of giving an assurance on the effectiveness of the Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Authority to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



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

**Nairobi**

**6 July 2018**