

REPORT OF THE AUDITOR-GENERAL ON COAST DEVELOPMENT AUTHORITY FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Coast Development Authority set out on pages 23 to 47, which comprise the statement of financial position at 30 June 2018, 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 2018, 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 the Coast Development Authority Act, Cap 449 of the Laws of Kenya.

Basis for Qualified Opinion

1.0. Presentation of the Financial Statements

Note 14 to the financial statements for the year ended 30 June 2018 reflects finance cost balance of Kshs.776,342. However, included in this figure is audit fees balance of Kshs.614,542. According to IAS 23 finance cost include interest on bank overdrafts and borrowings, finance charges on finance leases and exchange differences on foreign currency borrowings where they are regarded as an adjustment to interest costs. Hence, audit fees are not part of finance costs.

Consequently, the accuracy of finance costs of Kshs.776,342 for the year ended 30 June 2018 could not be ascertained.

2.0 Service Deposit

As previously reported, included in the receivables from exchange transactions balance of Kshs.23,168,974 and as detailed in note 16 to the financial statement for the year ended 30 June 2018 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.

2.0. Receivables from Non-Exchange Transactions

3.1 Outstanding imprests

The statement of financial position reflects receivables from non-exchange transactions balance of Kshs.51,965,210 as detailed in note 17 to the financial statements for the year ended 30 June 2018. Included in this balance is Kshs.25,255,112 in respect of outstanding imprests due from employees. However, imprests of Kshs.15,257,624 due from former employees have been outstanding for more than one year and the recoverability of the same is doubtful. This is 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 recoverability of outstanding imprest of Kshs.15,257,624 for the year ended 30 June 2018 could not be ascertained.

3.2 Other Debts

As previously reported, receivables from non-exchange transactions include an amount of Kshs.123,734 advanced to other Regional Development Authorities (RDA's) and which has been outstanding for more than six (6) 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.

In the circumstance, the accuracy and validity of the receivables from non-exchange transactions balance of Kshs.51,965,210 as at 30 June 2018 could not be confirmed.

3.3 Negative Receivables

The statement of financial position reflects receivables from non-exchange transactions balance of Kshs.51,965,210 as detailed in note 17 to the financial statements for the year ended 30 June 2018. Included in this balance is Kshs.2,172,938 PAYE, Kshs.4,800 Union, and Kshs.380,945 VAT receivable. However, ledgers availed for audit review reflected negative balances of the same figures. This resulted to netting off of assets and liabilities which is prohibited by the IPSAS 1 Paragraph 48 which states that Assets and liabilities, and Revenue and expenses, shall not be offset unless required or permitted by an IPSAS.

In the circumstance, the accuracy and validity of the receivables from non-exchange transactions balance of Kshs.51,965,210 as at 30 June 2018 could not be confirmed.

3.0. Board Expenses

The statement of financial performance reflects board expenses balance of Kshs.7,134,558 as detailed in note 9 to the financial statements for the year ended 30 June 2018. However, re-computation of the board expenditure schedule amounted to Kshs.6,282,708 resulting to a variance of Kshs.851,850 and which has not been explained or reconciled.

In the circumstances, the accuracy and completeness of board expenses balance of Kshs.7,134,558 as at 30 June 2018 could not be confirmed.

4.0. Cash and Cash Equivalents

The statement of financial position reflects cash and cash equivalents balance of Kshs.198,627,744.09 as detailed in note 15 to the financial statements for the year ended 30 June 2018. Included in the bank reconciliation statements availed for audit as at 30 June 2018 are stales cheques amounting to Kshs.147,381 which had not been reversed into the cash book as at 30 June 2018.

In the circumstances, the accuracy and completeness of the cash and cash equivalent balance of Kshs198,627,744.09 as at 30 June 2018 could not be confirmed.

5.0. Property, Plant and Equipment

6.1 Excluded Parcels of Land

As reported previously, property, plant and equipment balance of Kshs.410,600,629 as at 30 June 2018 (2016/2017 - Kshs 362,952,354) excluded un-valued nine (9) parcels of land located in Kwale, Kilifi, Taita Taveta and Tana River Counties. Further, the Authority only has allotment letter on the said parcels of land as proof of ownership as detailed below:

S. No	Asset/Property	Size	Location & County	Functions Undertaken/ Coordinated	Remarks/ Status of Asset/ Ownership status/ In use or Idle
1	CDA Wananchi Cottages /Conference Resort-Land Parcel	0.200Hectares or 0.494 Acres	Kilifi County	Accommodating the Wanainchi Cottages and Conference Facility	Title for full Acquisition on its Final Stages
2	PDP No/12/07 Kwale Town	0.200 Hectares or 0.494 Acres	Kwale County	Not in use for the moment	Plot Planned for CDA Kwale offices
3	PDP Malindi/4/08 Malindi Township	0.090 Hectares or 0.222 Acres	Kilifi County	Undeveloped	Plot Planned for CDA Malindi Office

S. No	Asset/Property	Size	Location & County	Functions Undertaken/ Coordinated	Remarks/ Status of Asset/ Ownership status/ In use or Idle
4	CDA Masalani Farm –Ijara-Masalani/1656	100 Acres	Garrissa County	Land allocated to Coast development Authority	Letter of Allotment
5	Galole Fruits Processing Project -Hola	40 Hectares or 98.84 Acres	TanaRiver County	Parcel of Land which is Partly developed with the integrated Fruit processing Plant	Title for full Acquisition on its Final Stages
6	Proposed Milk Processing plant-Wundanyi Township	1.0Acre Plinth Area 1515 Square feet	Taita Taveta County	Incomplete Building Structure 55% Complete	Letter of Allotment
7	Taveta Parcel-Kirimeri Village Nakuruto Location	1.0 Acres	Taita Taveta County	Currently not in use But with a drilled Borehole	Title for full Acquisition on its Final Stages
8	Kwale South Samburu/62-300n Acres	300 Acres	Kwale County	Proposed Solar Power Generation	No Acquisition Title
9	Masalani LAND(PDP No NEP/13/2003/2	1.12Ha	Garrissa County	CDA Masalani Offices	Title for full Acquisition on its Final Stages

In addition, records availed for audit review indicated that included in the balance of land of Kshs.333,900,000 as at 30 June 2018 is revaluation of land amounting to Kshs.53,514,000 which has not been reflected in the revaluation section of the assets movement schedule, nor in the changes to net assets but only disclosed in the significant accounting policies under note 2(t) to the financial statements under the sub heading: revaluation. The assets movement schedule in note 27 only indicates opening land balance of Kshs.280,386,000 and a closing balance of Kshs.333,900,000 with no details on the movement or variance of Kshs.53,514,000.

Consequently, the accuracy and completeness of the carrying values of the property, plant and equipment totaling to Kshs.410,600,629 as at 30 June 2018 could not be confirmed.

6.2 Land Balance Payable

The statement of financial position reflects trade and other payables from exchange transactions balance of Kshs.25,874,990 as at 30 June 2018. Excluded 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 Authority paid Kshs.4,600,500 and had an outstanding balance of Kshs.5,199,500 as at 4 August 2014. However, as per land report tabled at the 76th full Board meeting held on 19 September 2018, it was reported that the total purchase price of Kshs.9,800,000 had been paid but the land was unscrupulously sold by a squatter to a private investor. The case is before the Court awaiting determination.

Consequently, the accuracy and completeness of the carrying values of the property, plant and equipment totaling to Kshs.410,600,629 as at 30 June 2018 could not be confirmed.

7.0 Audit Fees

Note 22 to the financial statements for the year ended 30 June 2018 reflects trade and other payables from exchange transactions balance of Kshs.25,874,990. Included in this balance is audit fees of Kshs.895,520 owed to the Office of the Auditor-General. However, records availed from the Office of the Auditor-General reflects a balance of Kshs.814,560, resulting to unreconciled variance of Kshs.80,960. In addition, the audit fees provision amount of Kshs.614,800 has been included under finance cost. International Accounting Standard 23 defines finance costs as “interest and other costs that an entity incurs in connection with the borrowing of funds”. Finance costs are also known as “financing costs” and “borrowing costs”. Audit fees are not related with the borrowing of funds and hence wrongly classified under finance cost. Further, this amount has not been disclosed separately in the financial statements.

In consequence, the accuracy and completeness of audit fees balance of Kshs.895,520 for the year ended 30 June 2018 could not be ascertained.

8.0 Project Expenses

Note 10 to the financial statement for the year ended 30 June 2018 reflects project expenses balance of Kshs.18,714,220. Further, note 6 to the financial statements reflects other income of Kshs.12,683,521 which directly relates to these projects. There was therefore a net outflow of resources from the project of Kshs.6,030,699. This brings into question the validity and sustainability of the projects.

Consequently, the validity and property of the project expenditure of Kshs.18,714,220 for the year ended 30 June 2018 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 opinion.

9.0 Trade and Other Payables from Exchange Transaction

The statement of financial position reflects trade and other payables from exchange transactions balance of Kshs.25,874,990 as detailed in note 22 to the financial statements as at 30 June 2018. However, the creditors' age analysis availed for audit revealed that an amount of Kshs.18,644,312 has remained unpaid for over five (5) years. Consequently, failure to pay creditors on time may affect Authority's service delivery to residents of coast region and lead to unnecessary litigations from creditors. Further, there is no justification for the Authority's failure to pay its obligations as and when they fall due.

10.0 Medical Expenses

Note 7 to the financial statements for the year ended 30 June 2018 reflects medical expenses of Kshs.5,305,995.75. Review of payment voucher No.10775 revealed procurement of medical cover for staff through tender number REF:CDA T-10/2017-2019 and contract of Kshs.13,304,522 was awarded to AAR Insurance. However, approved budget for the same was not availed for audit review.

Consequently, the propriety of the medical expenses of Kshs.5,305,995.75 for the year ended 30 June 2018 could not be ascertained.

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, I have determined that there are no Key Audit Matters to communicate in my report.

Other Matter

1.0 Budgetary Control and Performance

1.1 Revenue Budget

During the year under review, the Authority's revenue budget amounted to Kshs.313,274,000 against actual disbursement of Kshs.307,969,000 (98%), thus resulting to net under disbursement of Kshs.3,305,000 or 2% as detailed below:

Detail	Actual	Budget	Under Disbursement	% Over Disbursement
Public Contributions and Donations	46,023,000	48,000,000	1,977,000	(4)
Government Grants and Subsidies	241,092,000	241,092,000	0	0
Sale of Goods	20,854,000	24,150,000	3,296,000	(13)%
Finance Income		32,000	32,000	(100)%

Total	307,969,000	313,274,000	5,305,000	(2)%
--------------	--------------------	--------------------	------------------	-------------

The Authority had a slightly negative balance of Kshs.5,305,000 or 2% on its revenue budget during the year under review.

1.1 Expenditure Budget

During the year under review, the Coast Development Authority had a final budget of Kshs.313,274,000 against actual expenditure of Kshs.300,296,000, resulting to an overall under absorption of Kshs.12,978,000 or 4 % as summarized below:

Receipt/ Expense Item	Final Budget	Actual on Comparable Basis	Under Absorption in Kshs.	Over Absorption in Kshs.	% of Utilization	Over/Under Absorption - %
Compensation of Employees	176,332,000	158,376,000	17,956,000		90	10
Use of goods and services	70,692,000	81,370,000		10,678,000	115	(15)
Other Payments	18,250,000	18,250,000			100	
Grants and Subsidies Paid	48,000,000	42,300,000	5,700,000		88	12
Total	313,274,000	300,296,000	23,656,000	10,678,000	96	4

Underutilization of budgeted amount of Kshs.23,656,000 or 4% is an indication of non-implementation of planned development projects negatively affecting community development and empowerment. Further, approval for the over expenditure of Kshs.23,656,000 was not availed for audit review as per Section 12 of the State Corporations Act, Cap 446 which states that no state corporation shall, without the prior approval in writing of the Minister (Cabinet Secretary) and the Treasury, incur any expenditure for which provision has not been made in annual estimate prepared and approved in accordance with section 11.

The management was therefore in breach of the law.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the procedures performed, except for the matter described in the Conclusion on Compliance and Effectiveness

section 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 Conclusion

1.0 Unremitted VAT

Note 23 to the financial statements for the year ended 30 June 2018 reflects trade and other payables from non-exchange transactions balance of Kshs.11,658,412. Included in this balance is Kshs.2,821,193 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 was in breach of the law.

2.0 Community Projects/ Work-In-Progress

Note 18 to the financial statements for the year ended 30 June 2018 reflects community projects/work-in-progress of Kshs.417,260,740. Review of project files revealed that the amount is a cumulative figure dated from 2007 with only Kshs.14,802,039 incurred in the financial year 2017/2018 for various projects not funded as per state department approved estimates. Review of the bank statements for NBK main account number indicated receipt of Kshs.18,250,000 for Integrated Fruit Processing Plant on 10 April 2018. This is the same account that is used to bank recurrent disbursements. Vote book to control the project funds was not availed for audit review. This is in contravention of Section 52 (j) of the Public Finance Management (National Government) Regulation which states: each accounting officer shall cause records to be kept in such a form as will clarify at any time, in respect of each of his or her votes— (i) the total amount of expenditure sanctioned for service of the year; (ii) the amount of the expenditure charged; and (iii) any further known liabilities in respect of the year;

The management was therefore in breach of the law.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT SYSTEMS AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the procedures performed, except for the matter described in the Conclusion on Effectiveness of Internal Controls section of my report, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

Weak Internal Controls and Failure to Bank Revenue On Time

Note 6 to the financial statements for the year ended 2017/ 2018 reflects Kshs.12,683,520.85 with respect to other income generated from exchange transactions. Cash, cheques and Mpesa are all accepted as modes of payment for Coast Development Authority (CDA). However, a review of sampled bank deposits revealed several instances of failure by the Authority in banking received cash revenue in time with no IOU signed by the cashier and handed over to the supervisor as per Section 10.1 of the CDA financial manual. Furthermore, cash collection and banking analysis form which is mandatory as per Section 10.1 of CDA financial manual as an internal control measure were not traced for all other incomes which were sampled during audit, implying a weakness in CDA control measures. This is in violation Section 10.1 of CDA Finance Manual for the year ended 2017/2018 which states that cheques and cash should be banked immediately, where this is not possible such banking should be done not later than the end of the next business day. The management was therefore in breach of the law.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and Those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for maintaining effective 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 and for its assessment of the effectiveness of internal control.

In preparing the financial statements, management is responsible for assessing the Coast Development Authority ability to continue as a going concern disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the Coast Development 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.

In addition to the responsibility for the preparation and presentation of the financial statements described above, management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public money is applied in an effective manner.

Those charged with governance are responsible for overseeing the Coast Development Authority financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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. 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 and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the Coast Development Authority's financial statements, a compliance review is planned and performed to express a conclusion with limited assurance as to whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the Coast Development Authority's financial statements and review of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the

ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Coast Development Authority policies and procedures may deteriorate.

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.
- 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 Coast Development Authority ability to continue as a going concern or to sustain its services. 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 Coast Development Authority to cease to continue as a going concern or to sustain its services.
- 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 and business activities of the Coast Development Authority 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

06 May 2109