

# REPORT OF THE AUDITOR-GENERAL ON THE COUNTY ASSEMBLY OF KILIFI FOR THE YEAR ENDED 30 JUNE 2017

---

## REPORT ON THE FINANCIAL STATEMENTS

### Disclaimer of Opinion

I have audited the accompanying financial statements of the County Assembly of Kilifi set out on pages 1 to 22, which comprise the statement of financial assets and liabilities as at 30 June 2017, the statement of receipts and payments, statement of cash flows and statements of comparison of budget and actual amounts: recurrent, development and combined 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 do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

In addition, as required by Article 229(6) of the Constitution, I have not been able to obtain sufficient appropriate audit evidence to confirm that public money has been applied lawfully and in an effective way.

### Basis for Disclaimer of Opinion

#### 1. Cash and Cash Equivalents

##### 1.1 Cashbooks and Bank Reconciliations

The statement of financial assets and liabilities as at 30 June 2017 reflects a bank balance of Kshs.81,799,249.64. However, cashbooks and monthly bank reconciliations of the following five (5) of the bank accounts were not availed for audit:

Name of Bank	Bank Account No	Type of Account	Amount in Kshs
Central Bank of Kenya	1000239085	Recurrent	1,608,477.00
Central Bank of Kenya	1000265108	Development	1,235.75
Central Bank of Kenya	1000286644	Deposit	5,991,482.30
Kenya Commercial Bank	1181021499	Recurrent	2,634,084.34
Kenya Commercial Bank	1181021391	Recurrent	22,244,815.15
<b>TOTAL</b>			<b>32,480,094.49</b>

This is contrary to Regulation 90(1) of the Public Finance Management (County Government) Regulations, 2015 which requires the Accounting Officers to ensure bank accounts reconciliations are completed for each bank account held by that Accounting

Officer, every month and submit a bank reconciliation statement not later than the 10<sup>th</sup> of the subsequent month to the County Treasury with a copy to the Auditor-General.

As a consequence, the accuracy, completeness and validity of bank balances of Kshs.81,799,249.64 as at 30 June 2017 could not be ascertained.

## **2. Pending Bills**

Note 12 to the financial statements for the year ended 30 June 2017 reflects pending accounts payable of Kshs.44,467,513 as at 30 June 2017. However, requisitions from users, stores ledgers for goods and list of participants for the seminars and workshops were not availed for audit review.

As such, the propriety and accuracy of pending bills of Kshs.44,467,513 as at 30 June 2017 could not be ascertained.

## **3. Ward Offices**

### **3.1 Ward Staff salaries and Wages**

Included in the statement of receipts and payments for the year ended 30 June 2017 is compensation of employees figure of Kshs.345,870,242. Included in this figure is basic wages of temporary employees amounting to Kshs.31,159,754. However, review of audit schedules revealed payment of wages to two hundred twenty six (226) ward employees amounting to Kshs.28,343,456 through Co-operative Bank. The payments were paid outside the Integrated Financial Management Information System (IFMIS) and Integrated Payroll and Personnel Database (IPPD) system, contrary to Regulation 120 (2) of the Public Finance Management (County Government) Regulations, 2015 which requires that each employee be linked to a program in the budget of the County Government entity's vote. Terms of employment for the ward staff could not be confirmed as the County Assembly does not maintain their personal files.

In addition, review of the payroll records revealed that only two (2) of the twenty-eight (28) positions filled in the financial year were filled by persons outside the dominant ethnic community in the County which translates to 7% against a minimum requirement of 30%. This is in contravention of Section 65(e) of County Governments Act 2012 which requires county Governments to ensure at least 30 per cent of public positions are filled by people not from the dominant community in the County.

In the consequence, the management of the County Assembly of Kilifi is in contravention of the Law and the propriety and validity of compensation of employees' amount of Kshs.345,870,242 for the year ended 30 June 2017 could not be confirmed.

### **3.2 Ward Office Rent and Expenses**

Included in the statement of receipts and payments for the year ended 30 June 2017 is use of goods and services amount of Kshs.307, 610,610. Included in this amount is rentals for produced assets amounting to Kshs.24, 181,092. However, included in this amount is ward staff salaries of Kshs.1,319,773. This amount ought to have been captured in the compensation of employees cost. In addition, payment vouchers to support ward expenses and office rent totaling Kshs.20,321,096 were also not availed for audit review.

Further, documents availed for audit review indicated that the Assembly paid for each ward Kshs.134,724 per month to cater for ward salaries, office rent and ward expenses. The total amount per annum for all the thirty-five (35) wards amounted to Kshs.56,584,080. This amount was issued to Members of the County Assembly as imprests. Imprest warrants were not issued contrary to Regulation 91 (2) of the Public Finance Management (County Government) Regulations, 2015. In addition, returns from each ward were also not availed for audit review. While Kshs.24, 181,092 was captured under rentals in use of goods and services, Kshs.31,159,754 was captured under compensation of employees instead of Kshs.32,402,988 resulting to unexplained or reconciled variance of Kshs.1,243,234.

Consequently, the propriety and validity of rentals for produced assets of Kshs.24,181,092 for the year ended 30 June 2017 could not be confirmed.

#### **4. Use of Goods and Services**

##### **4.1 Communication, Supplies and Services**

Included in the use of goods and services figure of Kshs.307,610,610 and as disclosed in note 3 to the financial statements for the year ended 30 June 2017 is communication, supplies and services expenditure of Kshs.1,651,283. However, the supporting schedules availed for audit review had a total balance of Kshs.1,368,251, resulting to an unexplained or unreconciled variance of Kshs.283,032.

As a result, the completeness and accuracy of communication, supplies and services amount of Kshs.1,651,283 for the year ended 30 June 2017 could not be ascertained.

##### **4.2 Domestic Travels and Subsistence**

Included in the use of goods and services figure of Kshs.307,610,610 and as disclosed in note 3 to the financial statements for the year ended 30 June 2017 is domestic travel and subsistence expenditure of Kshs.152,799,051. However, included in this is an amount of Kshs.1,893,900 whose supporting documents such as work tickets, boarding passes, imprest warrants, and authorizations were not availed for audit review. Further, payment vouchers and schedules availed for audit review totaled Kshs.158,407,355, resulting to an unexplained or reconciled variance of Kshs.5,608,304.

In the circumstance, the regularity and validity of domestic travel and subsistence expenditure of Kshs.7,502,204 for the year ended 30 June 2017 could not be confirmed.

#### **4.3 Rental for Produced Assets**

Included in the use of goods and services amount of Kshs.307,610,610 is rentals for produced assets amounting to Kshs.24,181,092. However, supporting payment vouchers amounting to Kshs.6,335,162 were not availed for audit review.

Consequently, the propriety and validity of rentals for produced assets of Kshs.6,335,162 for the year ended 30 June 2017 could not be confirmed.

#### **4.4 Hospitality Supplies and Services**

Included in the use of goods and services expenditure balance of Kshs.307,610,610 is an amount of Kshs.32,407,088 in respect of hospitality supplies and services. Review of payment documents availed for audit review indicated that that the County Assembly acquired hospitality services amounting to Kshs.19, 699,560 during the year under review. However, the list of registered suppliers was not availed for audit review.

Consequently, the propriety and validity of the hospitality, supplies and services amount of Kshs.19,699,560 for the year ended 30 June 2017 could not be ascertained.

#### **4.5 Insurance Costs**

Included in the use of goods and services expenditure balance of Kshs.307,610,610 is an amount of Kshs.22,528,322 in respect of insurance costs. Included in this amount is a payment of Kshs.1,389,232 for motor vehicle insurance. However, the motor vehicle policy documents were not availed for audit review.

Consequently, the validity and appropriateness of the insurance costs of Kshs.1,389,232 for the year ended 30 June 2017 could not be confirmed.

### **5. Acquisition of Assets**

Note 5 to the financial statements reflects expenditure totaling Kshs.115,915,473 on acquisition of assets. Included in the balance is Kshs.95,592,103 for construction of the Assembly's Office Complex. Review of the project and site visit revealed that the work had stalled and the Assembly had terminated the contract with work being behind schedule. The total cost of the complex was budgeted for Kshs.508,000,000. Records of termination availed for audit review indicated that physical work was only 13% complete while payments made totaled Kshs.95,592,103 or 19%. The slow pace of completion and the fact that the National Construction Authority (NCA) had stopped further construction because of compliance issues, were given as the main reasons for the termination of the contract. In addition, the project file revealed that the project was being implemented without complying with Occupational Safety and Health Act, lack of National Construction Authority (NCA) registered contractor on site and lack of signboard. The delay and

termination of the works have led to delay in service delivery and may also lead to cost escalation.

Consequently, the regularity and completeness of construction of buildings amount of Kshs.95,592,103 for the year ended 30 June 2017 could not be ascertained.

## **6. Other Payments**

Note 7 to the financial statements for the year ended 30 June 2017 reflects other payments amounting to Kshs.106,000,000. Information availed for audit indicated that this related to car and mortgage fund which was wrongly classified. In addition, cashbooks were not being maintained by the officer administering the Fund as the same was not produced for audit review. Also, financial statements for the Fund were not submitted for audit contrary to Section 167 of the Public Finance Management Act, 2012 which requires the administrator of a County Public Fund to prepare financial statements for the Fund for each financial year in a form prescribed by the Public Sector Accounting Standards Board. Further, the car loan and mortgage register availed for audit review indicated that issued loans totaled Kshs.192,344,000 as at 30 June 2017, resulting to an unexplained or unreconciled variance of Kshs.86,344,000.

In addition, and as reported in the previous year, the County Assembly deposited Kshs.50,000,000 to Chase Bank- Malindi Branch on 4 April 2016 and the bank went under receivership on the same month, hence creating doubt as to the recoverability of the deposited funds. No documentary evidence was provided of the efforts made by the Assembly to recover the said funds.

Consequently, the propriety, validity and appropriateness of the other payments of Kshs.106,000,000 for the year ended 30 June 2017 could not be confirmed.

## **7. Accounts Receivables**

Note 9 to the financial statements reflects accounts receivable amount of Kshs.1,044,300. Although, the opening balances of staff loans of Kshs.53,953,000 and other advances of Kshs.1,850,100 were reflected as cleared from these financial statements, it is not clear and management has not explained how the total amount of Kshs.55,803,100 was subsequently cleared in absence of supporting documentary evidence.

In the circumstances, the accuracy, validity and completeness of the accounts receivables balance of Kshs.1,044,300 as at 30 June 2017 and the cleared balance of Kshs.55,803,100 during the year under review could not be ascertained.

## **8. Fixed Assets Register**

The County Assembly of Kilifi availed a fixed assets register which did not capture all the assets of the County Assembly for the year under review contrary to Section 149(2)(o) of the Public Finance Management Act, 2012, which requires the County Assembly to maintain a system of tracking the assets owned by the County Assembly.

Non-updating of the fixed assets register could result to loss of ownership and the requisite tracking details of the fixed assets could be lost.

## 9. Budget Control and Performance

### 9.1 Budget Absorption

The County Assembly of Kilifi total budget for the year under review amounted to Kshs.1,190,067,330 comprising of Kshs.415, 144,013 for development and Kshs.774,923,317 for recurrent expenditure. However, the County Assembly's actual expenditure amounted to Kshs.881, 387,807, resulting to an overall under absorption of Kshs.308,679,523 or 26% as summarized below:

Item	Approved Budget for 2016/2017	Actual Expenditure for 2016/2017	Under Absorption in Kshs	Under Absorption in%
Development	415,144,013	121,906,955	293,237,058	71
Recurrent	774,923,317	759,480,852	15,442,465	2
<b>Total</b>	<b>1,190,067,330</b>	<b>881,387,807</b>	<b>308,679,523</b>	<b>26</b>

The under expenditure of the approved budget by Kshs.308, 679,523 or 26% reflects non-adherence to budget provisions. No plausible explanation has been given for the under expenditure.

### 9.2 Development Budget

During the year under review, the County Assembly of Kilifi allocated Kshs.415,144,013 for development projects and spent Kshs.121, 906,955, thus resulting to an under expenditure of Kshs.293, 237,058 or 71% as summarized below:

Expenditure Item	Budgeted Amount (Kshs)	Actual on Comparable Basis (Kshs)	Under Absorption (Kshs)	Under Absorption (%)	Over Absorption (Kshs)	Over Absorption (%)
Non-Residential Buildings	340,000,000	101,583,585	238,416,415	70		
Acquisition of land	28,000,000	0	28,000,000	100		
Refurbishment of Non-Residential Buildings	45,144,013	19,342,270	25,801,743	57		

Water Supplies and Sewerage	2,000,000	0	2,000,000	100		
Other Expenditure	0	981,100			981,100	100
<b>Total</b>	<b>415,144,013</b>	<b>121,906,955</b>	<b>294,218,158</b>	<b>71</b>	<b>981,100</b>	<b>0.2</b>

The under absorption of the development budget means that the County Assembly did not implement or complete some projects as planned, hence the objectives of the budget were not achieved. No plausible explanation has been provided for the under-expenditure.

### 9.3 Recurrent Budget

During the year under review, the County Assembly of Kilifi allocated Kshs.774,923,317 for recurrent expenditure but spent a total of Kshs.759,480,852, thus resulting to an overall under-expenditure of Kshs.15,442,465 or 2% as detailed below:

From the table, the County Assembly did not spend Kshs.40, 380,871 or 5%. The management has not provided any explanation for the under-expenditure. In addition, the

Expenditure Item	Budgeted Amount (Kshs)	Actual Expenditure (Kshs)	Under Absorption (Kshs)	Over Absorption (Kshs)	Under Absorption (%)	Over Absorption (%)
Compensation of Employees	320,931,836	345,870,242		24,938,406		8
Use of Goods and Services	321,491,481	307,610,610	13,880,871		4	
Other Payments	130,000,000	106,000,000	24,000,000		18	
Acquisition of Assets	2,500,000		2,500,000		100	
<b>Total</b>	<b>774,923,317</b>	<b>759,480,852</b>	<b>40,380,871</b>	<b>24,938,406</b>	<b>5</b>	<b>3</b>

Assembly exceeded its budget on compensation of employees by Kshs.24,938,406 or 8% and also on domestic travel and substance by Kshs.40,464,488 or 36%.The management has not provided for audit review approval for the excess expenditure as required by the Public Finance Management Act, 2012.

The management was therefore in breach of the law.

## 10. Failure to Establish Audit Committee

Regulation 167(1) of the Public Finance Management (County Government) Regulations, 2015 requires that each public entity shall establish an Audit Committee. The principal role of the Audit Committee is to provide oversight of financial reporting, risk management, internal control and governance processes. It was observed during the audit that the County Assembly did not constitute an Audit Committee.

As a result, there was no monitoring mechanism and guidance in the implementation of the internal and external audit recommendations.

### **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 (Cash 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 Assembly's ability to sustain services, disclosing, as applicable, matters related to sustainability of services.

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 Assembly's financial reporting process.

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

My responsibility is to conduct an audit of the Assembly's financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) 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. However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

I am independent of the County Assembly of Kilifi 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.



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

**Nairobi**

**16 July 2018**