

REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF KILIFI FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of County Assembly of Kilifi set out on pages 1 to 25, which comprise the statement of financial assets and liabilities as at 30 June 2018, and the statement of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts-recurrent and development 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 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of County Assembly of Kilifi 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 (Cash Basis) and do not comply with the Public Finance Management Act, 2012.

Basis for Adverse Opinion

1.0 Difference between Financial Statements and Integrated Financial Management Information System (IFMIS) Vote Book

The statement of receipts and payments for the year ended 30 June 2018 reflects total payments of Kshs.892,911,250, compared with the IFMIS vote book report figure of Kshs. 762,389,055 resulting to unreconciled nor explained variance of Kshs.130,522,195. It was not clear and the management has not explained why the figures in the IFMIS vote book report varied with expenditure figures in the financial statements.

2.0 Use of Goods and Services

2.1 Domestic Travel and Subsistence

Note 3 to the financial statements for the year ended 30 June 2018 reflects domestic travel and subsistence of Kshs.167,109,821 out of which Kshs 32,609,100 was not supported with documents such as: work tickets, boarding passes and imprest warrants. Consequently, the accuracy and completeness of domestic travel and subsistence amounting to Kshs. 32,609,100 for the year ended 30 June 2018 could not be confirmed.

2.2 Training Expenses

Note 3 to the financial statements for the year ended 30 June 2018 reflects training expenses of Kshs.27,348,103 out of which Kshs. 1,402,322 was not supported as summarized below:

Item	Amount(Kshs)	Observations
Training members on committee formations	950,000	No invoice, no list of members trained and no invitation letters availed for audit
ESAMI Training	452,322	No invoice, no list of members trained and no invitation letters availed for audit
Total	1,402,322	

In the circumstances, the accuracy, propriety and completeness of training expenses of Kshs.1,402,322 for the year ended 30 June 2018 could not be confirmed.

3.0 Acquisition of Assets

As reported previously, note 5 to the financial statements reflects Kshs.81,429,953 in respect to construction of building (Assembly's Office Complex). The project was started in the year 2016/2017 for a contract sum of Kshs.508,549,884. However, due to poor performance of the contractor, the contract was terminated and the management engaged another contractor at a contract sum of Kshs.622,233,278 resulting to excess commitment of Kshs.113,683,394.

Audit visit of the project revealed that the project works are ongoing though in slow pace which may affect the project completion time.

In the circumstances, the probity of the excess commitment of Kshs.113,683,394 for the year ended 30 June 2018 could not be confirmed and the delayed completion of the project may deny the residents of Kilifi value for money.

4.0 Pending Bills

Other disclosures at Note 5.10 to the financial statements for the year ended 30 June 2018 reflects pending accounts payable of Kshs. 51,885,525. However, the management did not maintain creditors' ledger in support of the pending bills. Further the pending bills were not broken down in Annex 1 as required in the reporting template by the Public Sector Accounting Standards Board. Indeed, Annex 1 reflect Nil balances.

Consequently, the accuracy and completeness of the pending accounts payable amounting to Kshs.51,885,525 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 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. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my 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. There were no Key Audit Matters to report in the year under review.

Other Matter

1.0 Budgetary Control and Performance

The County Assembly of Kilifi had a total budget of Kshs.1,050,223,148 voted for the financial year 2017/2018, and the actual expenditure amounted to Kshs.892,911,250 resulting to net under-absorption of Kshs.157,311,898, as summarized below:

Item	Approved Budget (Kshs.)	Actual Expenditure (Kshs.)	Over Absorption (Kshs.)	Under Absorption (Kshs.)	(%)
Compensation of Employees	294,799,829	311,330,495	16,530,666		5.6
Use of goods and services	374,832,657	384,384,591	9,551,934		2.5
Social Security Benefits	20,765,115	13,601,284		7,163,831	(34.5)
Acquisition of assets	359,825,547	164,771,368		195,054,179	(54.2)
Other payments	0	18,396,667	18,396,667		100
Finance Costs, including Loan Interest	0	426,845	426,845		100
Total	1,050,223,148	892,911,250	44,906,112	202,218,010	(14.9)

In overall, the County Assembly under spent to a tune of Kshs.157,311,898 or 15% of the total budget allocation. The funds could have been allocated to other deserving areas that would improve delivery of goods and services to the residents of Kilifi County. This may also be an indication of improper planning and the management may need to re-think on its budget making process in view of focusing on more priority areas.

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 matters noted in the basis for adverse opinion and other matter sections of my report, I confirm that public money has not been applied lawfully and in an effective way.

Basis for Conclusion

1.0 Mortgage Loan Fund

Note 7 to the financial statement reflects other payments amounting to Kshs.18,396,667. However, this amount relates to mortgage loan advanced to staff under the Kilifi County Assembly (staff) Mortgage scheme fund. Further, the Fund Administrator did not prepare and submit to the Auditor General the financial statements of the Fund contrary to Section 47 of the Public Audit Act, 2015.

In the circumstances, the propriety of Kshs.18,396,667 for the year ended 30 June 2018 could not be confirmed and that the management is in breach of the law.

2.0 Staff Advances

Note 10 to the financial statements for the year ended 30 June 2018 reflects staff advances amounting to Kshs.817,500. However, audit revealed that the staff at the assembly were being issued with staff advances that had not been approved by the accounting officer. Further, this includes multiple advances held by staff amounting to Kshs.705,000 contrary to Public Service Commission Human Resource Policies and Procedures Manual for the Public Service 2015 which states that an advance under this regulation may be granted only when an officer has no other outstanding salary advance

Consequently, the regularity and completeness of staff advances of Kshs.817,500 as at 30 June 2018 could not be confirmed.

3.0 Fixed Assets Register

As reported previously, the County Assembly of Kilifi availed a fixed assets register which did not capture transport equipment valued at Kshs.26,652,077 and buildings valued at Kshs.245,473,711 acquired in the previous year's 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 assets of the Assembly. Therefore, the County Assembly is in breach of the law.

My responsibility is to express a conclusion based on the review. The review was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the review so as to obtain limited assurance as to 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.

A review is limited primarily to analytical procedures and to inquiries, and therefore provides less assurance than an audit. I have not performed an audit, and, accordingly, express my conclusion in the form of limited assurance, which is consistent with the more limited work I have performed under this compliance review.

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 matters noted in the basis for adverse opinion and other matter sections of my report, I confirm that internal controls, risk management and overall governance were not operating effectively.

Basis of Conclusion

1.0 Failure to Constitute Audit Committee

It was observed the County Assembly of Kilifi had not constituted audit committee contrary to Section 167 of the Public Finance Management (County Government) Regulations, 2015 which requires that each public entity shall establish an Audit Committee. It was not clear who carries the financial oversight role for the County Assembly.

In addition, the internal audit department has no internal audit charter creating functions, roles and powers of the function. It was also observed that the head of internal audit function reports administratively and functionally to the Clerk which casts doubt on the independence of the department.

In the circumstances, assurance on the risk management, control and governance of the County Assembly is in doubt due to lack of an effective audit committee.

My responsibility is to express a conclusion based on the review. The review was conducted in accordance with ISSAI 1315. The standard requires that I plan and perform the review so as to obtain limited assurance as to whether effective processes and systems of internal control, risk management and governance was maintained in all material respects.

The matters reported are limited to the deficiencies identified during the audit that I have concluded are material to be reported. I have not performed an audit, and, accordingly, express my conclusion in the form of limited assurance, which is consistent with the more limited work I have performed under this review.

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 (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 County Assembly of Kilifi's 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 County Assembly of Kilifi 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 County Assembly of Kilifi's financial reporting process.

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.

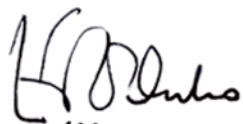
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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 County Assembly of Kilifi'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 County Assembly of Kilifi's 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 County Assembly of Kilifi 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 County Assembly of Kilifi 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

24 December 2018