

# **REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF MOMBASA FOR THE YEAR ENDED 30 JUNE, 2019**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of County Assembly of Mombasa set out on pages 1 to 26, which comprise of the statement of financial assets and liabilities as at 30 June, 2019, statement of receipts and payments, statement of cash flows and the 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, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the County Assembly of Mombasa as at 30 June, 2019, 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 comply with the Public Finance Management Act, 2012 and the County Governments Act, 2012.

### **Basis for Qualified Opinion**

#### **1. Variance in Transfers from County Treasury**

As disclosed under Note 1 to the financial statements, the statement of receipts and payments reflects transfers from the County Treasury/Exchequer releases of Kshs.562,902,091. However, a review of the bank statements revealed that the County Assembly actually received Kshs.211,816,218, resulting to a variance of Kshs.351,085,873. The variance relates to County Assembly staff salaries paid directly by the County Executive. It was not clear why the County Executive continues to manage the County Assembly's payroll despite the County Assembly having a separate budget and requesting own funds directly from the Controller of Budget.

Further, the transfers from County Treasury of Kshs.562,902,091 is at variance with Kshs.682,989,569 reflected in the records of the County Executive resulting to an unreconciled variance of Kshs.120,087,468.

In the circumstances, the accuracy and completeness of transfers from the County Treasury of Kshs.562,902,091 reflected in the statement of receipts and payments for the year ended 30 June, 2019 could not be confirmed.

## **2. Compensation of Employees**

As disclosed under Note 4 to the financial statements, the statement of receipts and payments reflects compensation of employees of Kshs.335,528,987. A review of records revealed that the balance was at variance with the availed supporting payroll summary of Kshs.332,533,929 by Kshs.2,995,058, while records maintained by the County Executive reflected Kshs.321,912,437, resulting to a variance of Kshs.13,616,550. Management did not provide reconciliations and explanations for the variances.

Further, the balance includes Members of the County Assembly (MCAs) sitting and responsibility allowances of Kshs.39,143,092. However, Management did not provide supporting documents for the payments.

In addition, payroll deductions amounted to Kshs.80,676,662 were not supported with documentary evidence of remittances of these statutory deductions to the relevant authorities.

In the circumstances, the accuracy, completeness and validity of compensation of employees' balance of Kshs.335,528,987 reflected in the statement of receipts and payments for the year ended 30 June, 2019 could not be confirmed.

## **3. Use of Goods and Services – Unsupported Expenditure**

As disclosed under Note 5 to the financial statements, the statement of receipts and payments reflects an expenditure of Kshs. 232,699,581 under use of goods and services. Examination of records revealed that the balance includes an amount of Kshs.32,524,849 paid as foreign travel and subsistence allowance. The amount was not supported with imprest surrender vouchers, approved annual plans or calendar, boarding passes, approvals to travel abroad, entry and exit visa stamps and daily itinerary.

Further, the County Assembly spent an amount of Kshs.5,270,720 under routine maintenance-other assets but the expenditure was not supported with payment vouchers, purchase requisitions, quotations and inspection and acceptance committee reports.

In the circumstances, the accuracy, completeness and validity of expenditure amounting to Kshs.37,795,569 included under use of goods for the year ended 30 June, 2019 could not be confirmed.

## **4. Cash and Cash Equivalents Balance**

As disclosed under Note 13A to the financial statements, the statement of financial assets and liabilities reflects cash and cash equivalents of Kshs.2,044,639 which includes a Central Bank of Kenya recurrent account balance of Kshs.46,057 that was not supported with bank reconciliation and cash book. Further, the balance under imprest account amounting to Kshs.1,998,582 and held at a commercial bank which included an amount of Kshs.110,000 related to stale cheques which had not been reversed in the cash book

as at 30 June, 2019. Further, Management did not avail Board of Survey certificate to confirm these balances for audit review.

Consequently, the accuracy and completeness of cash and cash equivalents of Kshs.2,044,639 reflected in the statement of financial assets and liabilities as at 30 June, 2019 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 Mombasa Management in accordance with ISSAI 130 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 qualified 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. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts: recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.707,114,950 and Kshs.562,902,091 respectively resulting to an under-funding of Kshs.144,212,859 or 19.4% of the budget. Further, of the budgeted expenditure of Kshs.707,114,950, only Kshs.572,475,504 was absorbed resulting to an under absorption of Kshs.134,639,446 or 19% of the budget.

The underfunding affected the planned activities and projects which may have impacted negatively on service delivery to the citizens of Mombasa

#### **2. Pending Bills**

As disclosed under Note 5.10 - Other important disclosures, the County Assembly had outstanding pending bills amounting to Kshs.121,750,821 as at 30 June, 2019. According to Annexes 1 and 2 the financial statements reflect pending accounts payables and pending staff payables amounting to Kshs.57,419,519 and Kshs.16,331,864 respectively as at 30 June, 2019. Further, Annex 3 to the financial statements reflects other pending payables in respect to unremitted statutory deductions amounting to Kshs.33,724,455 and unremitted staff pension contributions amounting to Kshs.14,274,983 all totalling Kshs.121,750,821. Management has not also explained why the bills were not settled during the year to which they occurred.

Failure to settle bills in the year to which they relate adversely affects the implementation of the subsequent year's budgeted programs as the pending bills form a first charge to that year's budget provision.

### **3. Prior Year Matters**

In the audit report of the previous year, several paragraphs were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, although the Management has indicated that the issues have been resolved, the matters have remained unresolved as the Senate has yet to deliberate on the same.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Recourses section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

### **Basis for Conclusion**

#### **1. Payments Made Outside Integrated Financial Management Information System (IFMIS)**

The statement of receipts and payments reflects total payments of Kshs.572,475,504, out of which Kshs.52,142,558 was made through cash withdrawals in the name of County Assembly of Mombasa for outward payments outside the Integrated Financial Management Information System (IFMIS). This is contrary to Sections 149(1) of the Public Finance Management Act, 2012 and Regulation 109(1) of the Public Finance Management (County Governments) Regulations, 2015 which provide that the Accounting Officer for a County Government entity shall ensure that resources are used lawfully and authorized, and in an effective, efficient, economical and transparent way, and that all payments are made through the automated integrated financial management system.

In the circumstances, the Management is in breach of regulations.

#### **2. Accounts Receivables - Outstanding Imprests**

Note 14 to the financial statements reflects imprests of Kshs.15,401,430. Review of availed imprests register revealed that imprests amounting to Kshs.2,741,182 had been outstanding for over one (1) year and Kshs.9,238,425 was held as multiple imprests by thirty-five (35) officers. This is contrary to Regulation 93(5) of the Public Finance Management (County Governments) Regulations, 2015 which requires a holder of a temporary imprest to account or surrender it within seven (7) days after returning to duty station. Further, Regulation 93(4)(b) of the Public Finance Management (County Governments) Regulations, 2015 requires Accounting Officer to ensure that the applicant has no outstanding imprest.

In the circumstances, Management is 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 AND GOVERNANCE

### **Conclusion**

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

### **Basis for Conclusion**

#### **1.0 Weaknesses in Internal Control and Risk Management.**

##### **1.1. Failure to Establish an Approved Risk Management Strategy**

Management did not provide supporting documents as evidence that it had established a Risk Management Strategy during the financial year ended 30 June, 2019. This would have developed a risk management mechanism and strategies which would have included fraud prevention mechanism as well as developing a system of risk management and internal controls that builds robust business operations.

##### **1.2. Failure to Establish Public Finance Management Committee**

Management did not provide supporting documents as evidence that it had established a Public Finance Management Committee in the financial year ended 30 June, 2019. The

Committee would have provided strategic guidance to the entity on public finance management matters.

### **1.3. Weak Internal Audit and Lack of Audit Committee**

As previously reported, the County Assembly had not constituted an Audit Committee. It was not clear who carries the financial oversight role in the County Assembly. Further, the Internal Audit Department had no Charter creating functions, roles and powers of the Department. It was also observed that the Head of Internal Audit Function reports administratively and functionally to the Clerk, a situation that casts doubt on the independence of the department.

In absence of an approved strategy and oversight institution, it has not been possible to determine whether the budget implementation and risk mitigation strategies, policies and procedures would ensure effectiveness of internal control and that public resources are utilized for the intended purpose.

### **2.0 Un-Updated Fixed Assets Register**

Annex 4 to the financial statements reflects a summary of fixed assets balance of Kshs.90,064,557. However, these assets are not tagged and the dates of acquisition and costs are also not indicated in the register.

In the circumstances, I am unable to determine whether Management has put in place policies and procedures to ensure safety and custody of its assets.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. 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 overall 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 (Cash 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, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the County Assembly's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to dissolve the County Assembly or to cease operations.

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 resources are applied in an effective way.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the County Assembly 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 overall 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 financial statements, a compliance audit is planned and performed to express a conclusion about 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 and that public resources are applied in an effective way, 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.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall 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 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 applicable 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's ability to continue 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 to cease 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 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.



**Nancy Gathungu**  
**AUDITOR-GENERAL**

**Nairobi**

**08 April, 2021**

**Appendix I: Foreign Travel**

<b>S/No.</b>	<b>Imprest Date</b>	<b>Description</b>	<b>Destination</b>	<b>Amount (Kshs.)</b>
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1.	06 July, 2019	Training on leadership & public governance	Dubai	1,233,613
2.	5 October, 2018	Invitation to Moshi Municipality environmental committee	Moshi	1,394,443
3.	16 October, 2018	County VAC efforts training	Tanzania	288,256
4.	16 November, 2018	EACC legislative benchmarking workshop	United States of America	1,614,159
5.	22 November, 2018	Conference for County Assembly youth Representatives	Netherlands	1,082,948
6.	23 November, 2018	Study visit	Switzerland	3,650,266
7.	21 December, 2018	International conference on leadership	Dubai	6,046,014
8.	21 December, 2018	Exchange visit on disability issues	United Kingdom	1,862,641
9.	15 January, 2019	International conference on leadership- education	Dubai	5,341,538
10.	05 February, 2019	Conference on pension planning	Dubai	4,909,777
11.	05 February, 2019	Winter allowance for international conference	Dubai	520,000
12.	13 May, 2019	Benchmarking visit, Kinondoni municipality	Tanzania	3,480,484
13.	20 May, 2019	Study visit, Arusha	Tanzania	1,100,710
	<b>Total</b>			<b>32,524,849</b>