

REPORT OF THE AUDITOR–GENERAL ON THE COUNTY EXECUTIVE OF KILIFI FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of the County Executive of Kilifi, set out on pages 10 to 50, which comprise the statement of financial position as at 30 June 2017, and the statement of receipts and payments, statement of cash flows and a summary statement of appropriations; recurrent and development combined for the year then ended, and a summary statement 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.

In my opinion, except for the effects 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 County Executive of Kilifi as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (Cash Basis) and the County Governments Act, 2012.

Further, as required by Article 229(6) of the Constitution, based on the procedures performed, 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

1.0 Presentation of the Financial Statements

The financial statements availed for audit review for the year ended 30 June 2017 presented for audit verification had information missing which included; the annexes on analysis of pending supplier payable, pending staff payable, pending payables and a summary of fixed assets register.

Consequently, the financial statements do not comply with the guidelines prescribed by the Public Sector Accounting Standards Board.

2.0 Comparative figures with variance with Audited Financial Statements

The opening balance for the following items differ with the audited balances for the year 2015/2016 as follows.

Financial Statement Item	Figures as per Financial Statements for 2016/2017 (Kshs.)	Figures as per Audited Financial Statements for 2015/2016 (Kshs.)	Variance (Kshs.)

Use of goods and services	2,153,656,880	2,110,446,945	43,209,935
Bank Balances	732,536,644	688,360,562	44,176,082
Outstanding Imprest	39,070,988	82,280,923	(43,209,935)
Deposits & Retentions	44,176,082	Nil	44,176,082
Total	2,969,440,308	2,881,088,430	88,352,164

In the circumstances, the accuracy and completeness of the opening balances variance of Kshs.88,352,164 for the year ended 30 June 2017 could not be confirmed.

3.0 Bank Balances

3.1 Cash book and Bank Reconciliations

The statement of assets as at 30 June 2017 reflects bank balances amounting to Kshs.590,585,708. However, included in the bank balance is an amount of Kshs.233,614,685 whose supporting bank reconciliation statements and cash books as detailed under **Appendix I** were not availed for audit verification.

In the foregoing, the accuracy and completeness of the bank balance amounting to Kshs.590,585,708 as at 30 June 2017 could not be confirmed.

3.2 Debit Bank Balances

The statement of financial position as at 30 June 2017 reflects bank balances amounting to Kshs. 590,585,708. However the bank balance are net of debit balance of Kshs.600,201.27 in seven (7) bank accounts as detailed below:

	Bank Balances with Negative Balances	Bank	Type of Account	Amount
1	Kilifi County Government - Standing Imprest Account Fin-Mgt-01141465788001	Co-op Bank-Kilifi	Imprest	(594,303.37)
2	KCG-DANIDA HSSP-Chasimba Health Centre-1102295175	KCB-Kilifi	Programme	(32.50)
3	KCG-DANIDA HSSP-Roka MaweniDispensary-1117370321	KCB-Kilifi	Programme	(1,688.20)
4	KCG-DANIDA HSSP-Mgamboni Dispensary-1165990237	KCB-Mariakani	Programme	(1,837.50)
5	KCG-DANIDA HSSP-Lenga Dispensary-1165964368	KCB-Mariakani	Programme	(573.00)
6	Kinarani Dispensary Mapito-1106122615	KCB-Mariakani	Programme	(230.20)

7	Vishakani Dispensary Current Account- Central-1122649835	KCB-Mariakani	Programme	(1,536.50)
	Total			(600,201.27)

This is contrary to the guidelines of the Public Sector Accounting Standard Board on presentation of financial statements which prohibits the netting of liabilities against assets.

Consequently, the accuracy and completeness of the bank balance amounting to Kshs.590,585,708 as at 30 June 2017 could not be confirmed.

4.0 Cash Balances

The statement of assets as at 30 June 2017 reflects cash balance of Kshs.15,619,190. However, records availed for audit indicated that cash of Kshs.10,067,339 from Malindi Sub-District Hospital (FIF) was omitted from these financial statements and an amount of Kshs.14,936,130 included in the financial statements was not supported by a Board of Survey report as detailed below:

Cash Book Details	Amount	Explanation/Comment
Mariakani Hospital	10,420,993	Not supported by Board of Survey
Kilifi County Hospital	4,515,137	Not supported by Board of Survey
Total	14,936,130	

Consequently, the accuracy and completeness of the cash balance of Kshs.15,619,190 as at 30 June 2017 could not be confirmed.

5.0 Retention Money

Note 13A to the financial statements reflects bank balance of Kshs.590,585,708 as at 30 June 2017. Included in bank balance is retention monies of Kshs.163,323,525. However, records availed for audit review indicated that payments amounting to Kshs.105,398,506 for safari imprest, salaries and training expenses were paid out of the retention bank account. The amounts paid were irregularly charged to retention account as the account is supposed to hold only retention money for contractors.

Consequently, the propriety of the retention bank balance of Kshs.163,323,525 for the year ended 30 June 2017 could not be confirmed.

6.0 Accounts Receivable

6.1 Accounts Receivable – Outstanding Imprest

The statement of assets as at 30 June 2017 reflects outstanding imprest amounting to Kshs.8,334,522. However, audit examination revealed that Kshs.2,120,623 was issued more than once to three officers and was outstanding for more than 3 months contrary to Section 93 (5) of the Public Finance Management (County Government) Regulations, 2015 which requires imprests to be surrendered within 7 working days, and contrary to Section 93 (4) of the Public Finance Management (County Government) Regulations, 2015 which states that the applicant to an imprest must ensure that there is no

outstanding imprest and that the accounting officer or AIE holder shall ensure that no second imprest is issued to any officer before the first imprest is surrendered or recovered

The propriety and regularity of imprest balance of Kshs.8,334,522 could not be ascertained.

6.2 Accounts Receivables – Loss of Cash

Note 14A to the financial statements reflects accounts receivables balance of Kshs.51,575,262 as at 30 June 2017. Included in this figure is other accounts receivables – loss of cash of Kshs.43,240,740. The schedule availed for audit review revealed that the total amount of cash lost before recovery was Kshs.51,569,775, out of which an amount of Kshs.8,329,035.60 was recovered, resulting to an unaccountable loss of Kshs.43,240,740. These amounts were lost through online transfer of funds without supporting vouchers.

Consequently, the accuracy and completeness of other accounts receivables balance of Kshs.43,240,740 could not be confirmed.

7.0 Revenue

7.1 County Own Generated Revenue

According to Note 4 to the financial statements for the year ended 30 June 2017 reflects county own generated revenues amount of Kshs.665,814,286 (2015/2016 – Kshs.684,414,066). There was therefore a decrease of Kshs.18,599,780 (2.72%). No explanation for this decrease was provided.

In the circumstances, the accuracy and completeness of county own generated revenues amount of Kshs. 665,814,286 for the year ended 30 June 2017 could not be confirmed.

7.2 Collections by Contracted Service Provider

7.2.1. Revenue Target

As reported in the previous year, the County Executive engaged a contractor for the collection of cess fees and parking fees revenue. Perusal of the contract document availed for audit revealed that the County Executive was entitled to 70%, while the revenue collection service provider was entitled to 30% of the revenue collected annually. The contract required the service provider to construct weighbridges, parking bays as well as providing a revenue collection software. The agreement further indicated that the share to the county of the total revenue collection should not fall below Kshs.123 million annually. The project investor was also required to reimburse the County Government in case the County Government apportionment was below Kshs.123,440,243 annually. The investor was further required to achieve an annual revenue of Kshs.766,500,000 within two years.

During the year under review, the County Executive budgeted to receive an amount of Kshs.162,498,875 from cess fees from the contractor. The total revenue collected during

the financial year 2016/2017 from cess and parking fees cumulatively totalled Kshs.140,460,029, which is only 18% of the agreed amount of Kshs 766,500,000. Thus, the service provider failed to meet the revenue collection target of Kshs.766,500,00 by Kshs.626,039,971 or 82%. The County Executive noted that the contract is sub judicial and undergoing court proceedings after termination due to missed targets.

The service provider sort and was granted an injunction reinstating them to collect cess fees and parking fees. However, it was not clear why the project investor was still not achieving the revenue targets and therefore value for money for this contract could not be ascertained,

7.2.2 Failure to Establish Weigh Bridges

Records further indicated that the service provider was to set and establish systems and construct weighbridges to cater for cess fees collection within locations to be selected by project investor. It was noted during the field visit in the month of January, 2018 that out of the 10 weighbridges identified, only four (4) were functional, at Sabaki (Malindi), mavueni, Mudzo and Jaribuni cess points. Major cess points with huge revenue potential points like Mariakani, Kanamai, Kanagoni and Kaloleni do not have functional weighbridges. No proper justification was given for failure to put in place the weighbridges in order to enhance transparency in revenue collection. The County Executive highlighted this as one of the many reasons of terminating the contract. However, the service provider sort and was granted an injunction reinstating them to collect cess fees and parking fees.

7.2.3 Denial for Independent Verification

During field visit in February, 2018, efforts to verify daily collections by the service provider was not possible since access to the revenue collection system was denied by the service provider. This is despite of the efforts by the County Executive to get the access. This is contrary to Section 9 of the Public Audit Act, 2015 which grants the Auditor-General, or an officer authorized for the purposes of carrying out his or her duties effectively, powers of unrestricted access to all books, records, returns, reports, electronic or otherwise.

7.3 Receipts from Health Facilities

Note 4 to the financial statements reflects county own generated revenue of Kshs.665,814,286 for the year ended 30 June 2017. Included in this figure are receipts from health facilities (Administrative fees and charges collected – F.I.F) amounting to Kshs.84,692,100. Perusal of the revenue cashbooks of the County hospitals revealed an opening balance of Kshs.212,527,658 while total collections during the financial year was Kshs.91,455,604. Therefore, the total amount to be transferred to the CRF as at end of the financial year was Kshs.303,983,231.

However, review of the cashbook, revenue accounts bank statements and CRF statements revealed that an amount of Kshs.167,897,695 was transferred to the County Revenue Fund (CRF), leaving an amount of Kshs. 136,085,567 as not being transferred to the CRF, contrary to Section 109 (2) of the Public Finance Management Act, 2012 which requires that all monies raised or received by the County Government to be paid to the County Revenue Fund. In addition, regulation 81 (2) of the Public Finance

Management (County Government) Regulations, 2015 requires the receiver of the revenue to promptly pay the revenue received into the County Revenue Fund as soon as possible and in any case not later than five (5) working days after the receipt thereof.

The table below illustrates the amount of Kshs.136,065,567 not transferred to the County revenue Fund.

Facility	Revenue Source (Kshs).	Opening Balance (Previous year's balance not transferred to CRF) – Kshs.	Revenue for the Year Kshs.	Total Revenue for transfer to CRF Kshs.	Actual Transfers to CRF Kshs.	Amount Not Transferred to CRF Kshs.
Mariakani Hospital	FIF	32,662,382	18,227,095	50,889,447	40,099,452	10,790,025
	PBF	2,597,760	1,133,950	3,731,710	-	3,731,710
	NHIF	24,373,798	3,603,090	27,976,888	-	27,976,888
Malindi Hospital	FIF	74,184,674	25,080,183	99,264,858	84,437,707	14,827,151
	PBF	7,170,390	10,761,266	17,931,656	-	17,931,656
Kilifi Hospital	FIF	31,019,042	20,892,570	51,911,612	43,380,535	8,531,077
	PBF	9,950,566	3,117,841	13,068,407	-	13,068,407
	NHIF	23,234,873	5,211,179	28,446,052	-	28,446,052
Bamba Hospital	FIF	5,441,836	2,319,760	7,761,596	-	7,761,596
Jibana Hospital	FIF	1,892,335	1,108,670	3,001,005	-	3,001,005
Total Amount		212,527,658	91,455,604	303,983,231	167,897,694	136,065,567

7.4. Government Grants

The statement of receipts and payments reflects an amount of Kshs.9,134,051,193 for the year ended 30 June 2017. Included in this figure is transfer from other government entities and as disclosed in Note 3 to the financial statements of Kshs.134,226,000. However, review of receipts revealed that user fees amounting to Kshs. 52,260,480 were received from the National Government since inception of the policy on 1 June 2013 on abolishment of user fees which were not disbursed to level 1 and level 2 health facilities.

This was contrary to the condition of the grant as captured in the County Revenue Fund Act, 2016, which is effected through County Allocation of Revenue Act of each financial year passed by the Senate.

Further, National Government grants on free maternity received during the financial year ended 30 June 2017 and amounting to Kshs.147,317,500 were not disbursed to level 1 and 2 health facilities. Similarly, grants on free maternity received in the previous financial year and amounting to Kshs.132,717,500 was also not disbursed to the health facilities.

This is against the spirit of County Allocation of Revenue Act, 2016, as highlighted in the annexes: Framework for Managing Conditional Grants- Allocations for Free Maternal Health Care: which states that the purpose of National Government grants to County Governments is for re-imbusement to health facilities based on actual number of deliveries conducted. Further, Annex 4: Allocation to support abolishment of user fees in health centers, indicates that amongst the conditions for grants is that the funds are also meant to compensate public dispensaries and health centres for lost revenue on abolishment of user fees.

7.5 Charging User Fees

According to Note 2 of the financial statements, proceeds from domestic and foreign grants amounted to Kshs.304,843,204 for the year ended 30 June 2017. However, a review of level I and II facilities books of accounts and visits to the facilities in the month of December, 2017 revealed that level I and II health facilities were variably charging user fees; some at Kshs.20 and others Kshs.50. The fees had not been approved through the County Finance Act 2016/17 and were contrary to National Government policy on provision of services at level 1 and 2 health facilities that required them to provide services at no charge. Contrary to the Policy on Abolishment of User Fees, review of level I and II health facilities financial statements revealed that a total of Kshs. 7,445,157 that was omitted from the County Executive financial statement was collected as user fees and spent at source. This is despite the fact that the National Government compensated the County Governments through a grant of Kshs. 26,392,597 for user fees forgone as evidenced in the second schedule of the County Allocation of Revenue Act, 2016.

The collection of user fees was attributed to the National Government (Free Maternity, User Fees Foregone) and Donors (DANIDA and World Bank), delays in disbursing funds which then required local rural facilities management committees to collect user fees from patients.

In the circumstances, the county government did not adhere to national government grant conditions

7.6 Danida Grants

According to Note 2 to the financial statements, proceeds from domestic and foreign grants amounted to Kshs.304,843,204 for the year ended 30 June 2017. However, review of schedule supporting receipt and disbursement of grants from Danida revealed that as at 30 June 2017, the County Executive had not disbursed Kshs.15,305,000 to level I and II health facilities.

Audit verification noted grants were received by the County Executive in June 2017, and as a result, the residents of the County may not have derived services from the donor grant of Kshs.15,305,000 for the year ended 30 June 2017.

7.7 Non-Disbursement of World Banks RBF Amounts

Note 2 to the financial statements reflects proceeds from domestic and foreign grants amount of Kshs.304,843,204 for the year ended 30 June 2017. However, payment vouchers in support of the grants amounting to Kshs.66,766,764 which was received in the previous financial year (that is 3 February 2016) and which was supposed to have been disbursed to level I and II health facilities were not availed for audit review. Enquiries from the management also revealed that the amounts had not been disbursed to level I and II health facilities due to the late sign-off of the RBF Performance Contracts

Consequently, the residents of the County may not have derived services from the World Banks RBF grants of Kshs.66,766,764 for the year ended 30 June 2017.

7.8 World Bank Performance Based Financing

Disclosed in Note 2 to the financial statements is the proceeds from domestic and foreign grants of Kshs.304,843,204. However, review of donor funding documentations revealed that during the year under review, Mariakani, Kilifi and Malindi hospitals received Kshs.34,733,624 under Performance Based Financing. The amounts were directly credited to their accounts by PWC, acting for the World Bank. However, as at 30 June 2017, the bank statements availed for audit revealed that the funds had not been utilized.

This is contrary to Section 83 (2) of the Public Finance Management (County Government) Regulations 2015 which requires one to ensure payments, including transfers to other levels of government and county-government entities are made when due for efficient, effective and economical programme delivery and the county government's normal terms for account. Funds amounting to Kshs.34,733,624 released under the performance based financing framework were held in bank accounts as shown below:

Facility Account	Account No	Bank Name	Amount
Mariakani Hospital	01141254535100	Co-operative Bank of Kenya	3,729,710
Kilifi Hospital	01001068243400	National Bank of Kenya	13,066,667
Malindi Hospital	01001018366800	National Bank of Kenya	17,937,246
Total Amount			34,733,623

8.0 Compensation of Employees

8.1 Recruitment

A review of the County Payroll revealed that a total of one hundred and eleven (111) new staff were appointed by the County Public Service Board at various posts during the year under review. However, the new staff hired were not within the approved recruitment plan, were not budgeted for and their terms and conditions of employment were not availed for audit review. Further, a total of 95 (85.6%) newly recruited staff were from the Mijikenda Community which is the dominant ethnic group in Kilifi County. This implies that only 14.4% of the vacant posts were filled by persons not from the dominant community in the County.

This is in contravention of County Government Act, 2012, Section 65 (1)(e), which requires County Public Service Board to ensure that 30% of vacant posts are not from the dominant community in the County.

8.2 Irregular Promotion and Re-designation of Staff

Review of County Public Service Board (CPSB) minutes revealed approval for promotion and re-designation of various staff in the County Public Service. No record however was availed to confirm the promotions or re-designations were based on merit, performance, seniority, experience and academic or professional qualifications. This is in contravention of Section 65 (2) of County Government Act 2012, which requires promotion or re-designation to be undertaken in a fair and transparent manner, the overriding factors being merit, fair competition and representation of the diversity of the county.

The regularity of the recruitment, awarding promotions and re-designation of staff could not be confirmed.

9.0. Use of Goods and Services

9.1 Signing of Contracts

Note 7 to the financial statements reflects use of goods and services amount of Kshs.1,778,656,680 for the year ended 30 June 2017. Included in this figure is specialised materials and supplies amount of Kshs.386,746,680. Examination of records revealed that contrary to Section 148 (2) of the Public Finance Management Act, 2012 which states that except as otherwise stated in other legislation, the person responsible for the administration of a county government entity, shall be the accounting officer responsible for managing the finances of that entity, on 21 June 2016, the county secretary contracted a supplier to deliver the specialized materials of Kshs.19,972,610. However, the county secretary is not an accounting officer for the department of health and as a result, the contract was nonbinding and irregularly entered into.

In the circumstance, therefore, the entity may have incurred an irregular expenditure.

9.2 Communication, Supplies and Services

Note 7 to the financial statement for the year ended 30 June 2017 reflects communication, supplies and services payments of Kshs.16,558,305, out of which payments amounting to Kshs.8,461,933 paid for supply, installation, testing and commissioning of Wide Area Network (WAN) as well as provision of internet services. The entire payment was settled using recurrent vote despite it being a development expenditure. In addition, no interim and completion certificates were availed for audit review. Further perusal of documents indicated that duplicate photo copies of Local Service Order (LSOs) and invoices were attached to support payments for internet provision.

As a consequence, the regularity of communication, supplies and services amount of Kshs.16,558,305 for the year ended 30 June 2017 could not be ascertained.

9.3 Hospitality, Supplies and Services

Note 7 to the financial statement for the year ended 30 June 2017 reflects hospitality, supplies and services amount of Kshs.80,848,404. Review of payment vouchers availed for audit review indicated that payments of Kshs.7,000,000 was charged both at the department of education and at the Kilifi Ward Scholarship Account. Only one payment voucher was availed for audit review and whose details indicated that the funds were to cater for the ward scholarship committee allowances and other running costs as per the budget attached to the payment voucher. In addition, schedules availed in support of the figure, comprised of expenditure amounting to Kshs. 12,974,995 which were not relating to hospitality expenses but County Assembly general expenses including hire of training facilities.

Consequently, the propriety of payments of hospitality, supplies and services amount of Kshs.19,974,995 for the year ended 30 June 2017 could not be ascertained.

10.0 Emergency Relief Food

10.1 Evaluation Committee

Note 10 to the financial statements reflects other grants and other payments amount of Kshs.1,530,831,071 for the year ended 30 June 2017. Included in this figure is emergency relief and refuge assistance of Kshs.202,483,688. However, records availed for audit revealed that the County Executive procured relief food for Kshs.149,527,500 through framework agreement. Review of tender opening and evaluation minutes, contract agreements, delivery orders, letter of notification of award and letter of acceptance of offer revealed irregular allocation of contract since the law requires that the opening and evaluation committees to be constituted by the accounting officer. The above contract committees were constituted by the County Secretary rather than the designated accounting officer contrary to sections 46(1) of Public Procurement and Disposal Act, 2015 which only allows the accounting officer to establish the evaluation committee and 48(1) of Public Procurement and Asset Disposal Act, 2015 which allows the accounting officer to establish the inspection committee.

As a consequence, the regularity of procured relief food for Kshs.149,527,500 could not be ascertained.

10.2 Quarterly Reports

Note 10 to the financial statements reflects emergency relief and refugee assistance of Kshs.202,483,688. Included in this figure is emergency relief food of Kshs.149,527,500. However, the management failed to avail for audit review quarterly reports as required by Section 114(6) of the Public Procurement and Asset Disposal Act, 2015 which states that a procurement management unit shall prepare and submit to the accounting officer with a copy to the internal auditor quarterly reports detailing an analysis of items procured through framework agreements and these reports shall include, an analysis of pattern of usage, procurement costs in relation to the prevailing market rates and any recommendations.

10.3 County Emergency Fund

Note 10 to the financial statements reflects emergency relief and refugee assistance of Kshs.202,483,688. Included in this figure is emergency relief food of Kshs.149,527,500. However, records availed for audit revealed that the management failed to establish a County Emergency Fund as required by Section 110(1) (2) of Public Finance Management Act, 2012 which state: a County Executive Committee may, with the approval of the county assembly, establish an emergency fund for the county government under the name "...County Emergency Fund" and the fund shall consist of money from time to time appropriated by the county assembly to the Fund by an appropriation law. The purpose of an Emergency Fund is to enable payments to be made in respect of a county when an urgent and unforeseen need for expenditure for which there is no specific legislative authority arises. County Executive Committee member for finance is to administer the Emergency Fund.

11.0 Pending Bills – Legal Fees

A review of legal fee notes issued by various legal firms revealed that out of Kshs.774,786,340 invoiced, only Kshs.62,810,000 had been paid leaving Kshs.711,976,340 outstanding. Although the head of legal services informed the audit team that the county is in the process of negotiating for the legal fees downward, the department has not disclosed the pending liability.

12.0 Acquisition of Assets

The statement of receipts and payments for the financial year ended 30 June 2017 reflects acquisition of assets of Kshs.3,316,541,114. Review of records availed for audit review revealed the following:

12.1 Misclassification of Expenditure

Review of support schedules revealed that expenditure amounting to Kshs.62,117,248 was incorrectly classified as detailed in the table below:

Classification of Expenditure As per Financial Statement	Amount Kshs.	Correct Classification
Construction of Building	10,056,655	Printing and advertising

Construction of Building	25,214,639	Refurbishment of Buildings
Construction of Building	17,451,154	Construction of Roads
Research, Feasibility Studies	9,394,800	Purchase of Specialised Equipment and Machinery
Total	62,117,248	

Consequently, the accuracy and completeness of the acquisition of assets amount of Kshs.62,117,248 for the year ended 30 June 2017 could not be ascertained.

12.2 Asset Register

Note 12 to the financial statement for the year ended 30 June 2017 reflects acquisition of assets balances of Kshs.3,316,541,114. However, review of the asset register availed for audit verification was not updated with assets acquired during the year contrary to Section 149 (2) (o) of Public Finance Management Act 2012 that requires an accounting officer to maintain an asset register that is current, accurate and available to the Auditor-General. Further, the register lacked details on assets

Consequently, the accuracy and completeness of the acquisition of assets amount of Kshs.3,316,541,114 for the year ended 30 June 2017 could not be ascertained.

12.3 Non – Existence Deliveries

Note 12 to the financial statement for the year ended 30 June 2017 reflects acquisition of assets balances of Kshs.3,316,541,114. Included in this amount is construction of a dispensary whose contract sum was Kshs.16,628,948. However, perusal of records availed for audit revealed that a payment of Kshs.4,760,164 was made as the first certificate of completion of work. A field visit done in the month of January, 2018 accompanied by an official from the department of health failed to locate the exact location of the dispensary, even after spending time to visit three (3) sites within the locality of Kambe Ward in Ribe where the said dispensary was said to be constructed.

In the circumstances, the propriety and completeness of the specialized plant, machinery and equipment of Kshs.16,628,948 for the year ended 30 June 2017 could not be confirmed.

13.0 Construction of Buildings

13.1 Lack of Ownership Documents

The statement of receipts and payments for the financial year ended 30 June 2017 reflects acquisition of assets of Kshs.3,316,541,114. Included in this figure are construction of buildings of Kshs.909,335,202. However, records availed for audit review indicate that the County executive failed to provide ownership records for projects done including title deeds for land, ECDE registration certificates by the Ministry of Education, and evidence of health facilities recently commencement and gazetted.

Consequently, the accuracy and completeness of construction of buildings amount of Kshs.909,335,202 for the year ended 30 June, 2017 could not be confirmed.

13.2 Completed Projects Not in Use

Included in the construction of non-residential buildings balances of Kshs.909,335,202 are projects amounting to Kshs.35,476,249 that were physically verified and observed to have been completed but not in use. Amongst these projects was Uwanja wa Ndege Dispensary at Rabai, Kisuritini ward that was constructed at a cost of Kshs.28,886,000 for construction of a dispensary, staff house and a septic tank and ECD classroom and office of Kshs.6,590,249. The county government has neither equipped nor staffed the facility and thus the facility was not in use despite the capital outlay.

It has not therefore been possible to ascertain whether the community obtained value for money from the projects. In the circumstances, the validity and propriety of the construction of buildings expenditure of Kshs.35,476,249 for the year ended 30 June 2017 could not be ascertained.

14.0 Stalled Projects

14.1 Market High-rise at Mariakani

Note 12 to the financial statement for the year ended 30 June 2017 reflects construction of buildings amount of Kshs.909,335,202. Included in this figure are amounts totalling Kshs.33,044,688 for the construction of a market high rise at Mariakani whose contract sum was Kshs.41,044,688. Records indicate that the works started on 1 October, 2014 with expected completion date of 1 May, 2015. The project was found to be stalled. No work had been done for the last two years. Further, documents availed for audit review indicated a price variation of Kshs.8,018,879 and this variation was approved on 18 February, 2016, though not yet paid as at the time of the audit in October, 2017. There was no evidence of work going on.

14.2 County Medical Warehouse

Further, records reveal that amounts totalling Kshs.2,923,147.80 for the construction of a county medical warehouse at a contract sum of Kshs.33,517,301 were made. Analysis of the records indicate that the project commenced in the financial year 2013/14 and that the contractor has cumulatively been paid Kshs.15,937,197.82 but has failed to resume work since the last payment.

14.3 ECD Centres

A visit to ECD centres indicated that ECD class rooms costing Kshs.71,912,682 initiated in 2013/2014 have stalled with no allocation in the financial year 2016/2017.

In consequence, it has not been possible to ascertain if the County Government obtained value for money on the construction of projects totalling Kshs.235,712,497 for the year ended 30 June 2017 and on the previous years stalled projects.

14.4 Delay in Completion of Projects

Included in the construction of roads amount of Kshs.1,118,255,013 are payments to projects totalling Kshs.282,708,910 whose completion dates have not been achieved as detailed below:

Name of Project	Contract Amount (Kshs.)	Payment to Date (Kshs.)	Duration of Delay	Reasons for the Delay
Upgrading of Malindi Township to Bitumen Standards (Ngala-Malindi High School-Muyeye-New Bus Park)	222,113,018	70,133,615	9 Months	Contractor not on site and no reasons were availed for the delay
Upgrading to Bitumen Standards of BP Petrol Station – Eden Roc Road	100,000,000	73,369,448	6 Months	Contract period has expired. Delay in payments as the main reason for the delay
Upgrading of Malindi Township to Cabro Standards (Ngala-HGM-Kisumu Ndogo-Kanu Office)	183,963,340	47,763,912	6 Months	Only 0.9.Kms done out of 9 Kms. LSO not dated. No reason was given for the delay
Mtwapa Bus Park	180,000,000	91,441,935	15 Months	No reasons availed for the abandonment of the project
Total	685,076,358	282,708,910		

In consequence, it has not been possible to ascertain the value for money on the construction of projects totalling Kshs.282,708,910 for the year ended 30 June 2017 and on the previous years stalled projects.

14.5 Construction and Civil Works - Irrigation Projects

Included in the acquisition of assets figure of Kshs.3,316,541,114 is construction and Civil Works balances of Kshs.805,461,848 for the year ended 30 June 2017. Review of documents availed for audit review indicated two firms were paid Kshs.22,981,968 for the implementation of irrigation projects in Burangi in Magarini Sub County under different contracts. Physical verification of the project in the month of January 2018, revealed that the two contractors were implementing the irrigation projects in one locality making it impossible to distinguish the specific lines fixed by each of the contractors. In addition, further scrutiny of documents availed for audit revealed that the County Government awarded tender in the month of August 2016 for the construction of Mitsedzini- Mirihinini Water Project for a contract sum of Kshs.20,990,900. This project has since stalled with only piping done. The payments as for the year ended 30 June was Kshs.2,725,000.

In the circumstances the propriety and validity of construction of civil works balances of Kshs.25,706,968 for the year ended 30 June 2017 could not be ascertained.

15.0 Purchase of Specialized Plant, Machinery and Equipment

15.1 Proposed Supply, Delivery, Installation, Configuration and Maintenance of Unified Communication Platform

Included in the Purchase of specialized plant, equipment and machinery payments balance of Kshs.167,103,867 is an amount of Kshs.11,918,132 for supply, delivery, installation, configuration and maintenance of unified communication platform. The contract was to enable voice over internet protocol (VOIP) between the county executive members, Chief Officers and their secretaries. It was observed that only county executive members and their secretaries were connected with the unified communication gadgets. As at the time of audit, in the month of October 2017, the project was not functioning in Trade and Water offices and this was occasioned by a spoiled switch in the two offices.

In consequence, it has not been possible to ascertain if the County Government obtained value for money on the installation, configuration and maintenance of unified communication platform totalling Kshs.11,918,132 in the year ended 30 June 2017.

15.2 Setup and Installation of an Informative Call Centre for Kilifi County

Included in the purchase of specialized plant, equipment and machinery payments balance of Kshs.167,103,867 is an amount of Kshs.2,570,000 paid for setup and installation of an informative call centre for Kilifi County. However, review of documents revealed that the call centre was purportedly inspected and a certificate issued but physical verification of the project revealed that equipment was installed at the reception area and was not functioning.

In consequence, it has not been possible to ascertain if the County Government obtained value for money on the installation of call center equipment amounting to Kshs. 2,570,000 for the year ended 30 June 2017.

15.3 Construction of Ice Flake

Included in the purchase of specialized plant, equipment and machinery of Kshs.167,103,867. The following observations were noted:

15.3.1 Management of the Ice Flake

A supplier was paid Kshs.4,748,610.10 for construction of Ice flake at Malindi fisheries. The contract sum was Kshs.5,448,160.40. The other payment of Kshs.699,549.60 was charged to construction and civil works. A visit to the project on 16th January 2018 revealed that the project was functional but was being managed by the chairman of Shella Beach Management Unit. Revenue was being collected by the chairman of the Shella Beach Management Unit and not submitted to the County. Agreement between the county and the Shella Beach Management Unit was not availed for audit verification thus

casting doubts on how a public property built in a public land is being managed by private individuals.

15.4 Research, Feasibility Studies, Project Preparation and Design, Project Supervision

Note 12 to the financial statements for the year ended 30 June 2017 reflects research, feasibility studies, project preparation and design, project supervision amount of Kshs.20,735,340. Included in this figure is an expenditure of Kshs.2,998,500 paid to a firm for consultancy services for instituting a programme for enhancing production and productivity of cashew nut in Kilifi County. The Contract sum for the service was Kshs.4,997,500. However, a contract agreement was not availed for audit review and thus the terms of reference for the study were not ascertained. It was therefore not possible to ascertain the specific task of the consultant and whether the survey would be of value to the intended beneficiaries.

Further, review of records indicated that Kshs.2,499,400 was paid as allowances to various officers to undertake monitoring and evaluation of various water development projects in the County. However, a monitoring and evaluation report was not availed for audit review.

Consequently, the propriety and regularity of payments of Kshs.5,497,900 for research, feasibility studies, project preparation and design, project supervision's payments for the year ended 30 June 2017 could not be ascertained.

16.0 Budget Control and Performance

16.1 Budgetary Utilization

The County Government of Kilifi had a total budget of Kshs.13,332,803,333 comprising development budget of Kshs.6,830,750,524 and recurrent budget of Kshs.6,502,052,809. The total actual expenditure for the year under review was Kshs.9,455,211,290 comprising of development expenditure of Kshs.3,316,541,114 and the recurrent expenditure of Kshs.6,138,670,176 resulting to an overall under absorption of Kshs.3,877,592,043 or 29%. This is as summarized below:

Item	Approved Budget for 2016/2017 (Kshs.)	Actual Expenditure for 2016/2017 (Kshs.)	Under Absorption (Kshs.)	Under Absorption (%)
Development Vote	6,830,750,524	3,316,541,114	3,514,209,410	51%
Recurrent Vote	6,502,052,809	6,138,670,176	363,382,633	6%
Total	13,332,803,333	9,455,211,290	3,877,592,043	29%

Item	Approved Budget for 2016/2017 (Kshs)	Actual Expenditure for 2016/2017 (Kshs)	Under Absorption (Kshs)	Over Absorption (Kshs)	Variance in %
Construction of Buildings	2,053,867,477	909,335,202	1,144,532,275		56%
Refurbishment of Buildings	108,124,892	6,807,732	101,317,160		94%
Construction of Roads	1,535,649,389	1,118,255,013	417,394,376		27%
Construction and Civil Works	1,452,854,789	805,461,848	647,392,941		45%
Overhaul and Refurbishment of Construction and Civil Works	54,000,000	10,852,757	43,147,243		80%
Purchase of Office Furniture and General Equipment	49,371,070	100,588,339		51,217,269	-104%
Purchase of Vehicles and Other Transport Equipment	99,284,086	101,837,386		2,553,300	-3%
Overhaul of vehicles		341,810		341,810	100%
Purchase of Specialised Plant, Equipment and Machinery	376,886,768	167,103,867	209,782,901		56%
Purchase of Certified Seeds, Breeding Stock and Live Animals	79,405,704	75,221,820	4,183,884		5%
Other Capital Grants- Cash transfer for elderly and vulnerable	35,000,000	0	35,000,000		100%
Micro Finance Youth Programme - Mbegu Fund	57,000,000	0	57,000,000		100%
Research, feasibility studies, project preparation and design, project supervision	29,600,000	20,735,340	8,864,660		30%
Total	5,931,044,175	3,316,541,114	2,668,615,440	54,112,379	

Underutilization of budget is an indication that the county may not have attained service delivery envisaged by the residents of Kilifi County.

16.2 Development Budget

During the year under review, the County Executive allocated Kshs.6,830,750,524 for development projects and spent Kshs.3,316,541,114, resulting in under expenditure of Kshs.3,514,209,410 or 51% of budget. Table below shows utilization of major budget items:

From the above table, it is clear that the County Government did not utilize significant resources meant to develop and improve the livelihoods of residents of Kilifi County.

The management therefore needs to keenly align its budget planning process to the needs of the residents and ensure fully utilization of resources to achieve its developmental goals.

16.3 Recurrent Budget

During the year under review Kilifi County Government allocated Kshs.6,502,052,809 for recurrent expenditure but spent Kshs.6,121,909,969, resulting in under expenditure of Kshs.380,142,840 or 6% of budget as shown in table below:

Item	Approved Budget for 2016/2017 (Kshs)	Actual Expenditure for 2016/2017 (Kshs)	Budget not Spent (Kshs.)	Budget not Spent (percentage - %)
Compensation of Employees	2,789,867,051	2,829,182,425	-39,315,374	-1%
Use of Goods and Services	2,598,329,461	1,778,656,680	819,672,781	32%
Other Grants and Transfers	1,113,856,297	1,530,831,071	-416,974,774	-37%
Total	6,502,052,809	6,138,670,176	363,382,633	6%

From the analysis above, it is clear that the Executive needs to improve on the utilization of use of goods and other grants and transfers in order to improve on the welfare of its residents.

16.4 Governor's Budget

The Office of the Governor (referred as County Executive department) was not allocated any amount for development during the year under review. The County Government budgeted Kshs.376,227,098 for the Governor's recurrent expenditure for the year 2016/17, out of which Kshs.300,621,654 representing 79.9%, was spent. It was however observed that the schedules provided to support the Governors expenditure had a balance of Kshs.431,027,977 resulting in unexplained nor reconciled variance of Kshs.130,406,323.

16.5 Expenditure Incurred Above Approved Exchequer Issues by Controller of Budget

The county executive sought and obtained approvals from the Controller of Budget to withdraw KShs.8.336 billion from exchequer but spent Kshs.8.532 billion thus exceeding approval by Kshs.195.65 million contrary to Section 109(6) of Public Finance Management Act, 2012 which requires the County Treasury to obtain the written approval of the Controller of Budget before withdrawing money from the County Revenue Fund. The source of the excess expenditure could not be ascertained. Further, it was observed that the county did not adhere to approvals of exchequer issues as some departments were observed to have spent more than the approval obtained from Controller of Budget, thereby spending from other departments budgets hence affecting their performance and budget absorption contrary to Section 45(2) of the Public Finance Management Regulation (County Government), 2015 which that state release of funds from the County Revenue Fund to county government entities shall be in accordance with the authority granted by the Controller of Budget together with the written instructions of the County Treasury.

16.6 Re-voting of Non-existent Funds to Fund Budget –Kshs.2,304,035,829

Review of the county budget for the financial year 2016/17 revealed the county planned to spend Kshs.13,332,803,333 for the year under review. Among the various financing

means included re-voting of previous years' unspent balances amounting to Kshs.2,831,590,371. However, review of previous year audited financial statements revealed the county had a balance of Kshs.527,554,542 at the beginning of the financial year 2016/17,resulting to unfunded deficit of Kshs.2,304,035,829 as per table below.

Review of previous financial years showed similar occurrence in 2015/2016 financial year.

Description	2014/15	2015/16	2016/17
Opening cash balance	2,040,457,683	1,903,154,606	706,880,344
Less account Payables (Retention & deposits)	Nil	142,468,990	179,325,802
Cash available for budgeting	2,040,457,683	1,760,685,616	527,554,542
Amount Re-voted	1,099,393,861	2,104,436,232	2,831,590,371
Variance (deficits)	941,063,822	-343,750,616	-2,304,035,829

The county budget was therefore not fully financed as the county budgeted for non-existent funds contrary to Section 31(c) of Public Finance Management Regulations (County Government), which requires the budget revenue and expenditure appropriations to be balanced.

The Executive was therefore in breach of the law. The County Executive may increase its liabilities resulting to unsustainable pending bill balance. The county treasury should ensure they re-vote only unspent balances and not just unsupported figures as revenue.

16.7 Revenue Collection Performance

The County Government had budgeted to collect Kshs.1,585,881,577 but the actual collection during the year under review was Kshs.665,814,286, resulting to under collection of Kshs.920,067,291 or 58%. Revenue reports availed for audit review indicated a decrease in revenue collection in the financial year 2016/17 as compared to previous financial year (2015/16) by Kshs.18,599,780, representing a decline of 2.72%.

Four major revenue streams with a budgeted amount of Kshs.980,338,033.75 managed to collect a total of Kshs.230,511,359.80, resulting an under collection of Kshs.749,826,673 or 76% .

Revenue Item	Budget Estimates Kshs.	Total Kshs.	% Performance
	2016 - 2017	Actual	
Quarry Cess	315,264,032.04	7,972,157.00	3%
Land Rates Current Year	259,361,394.94	91,732,004.00	35%
Single business Permit- Current year	243,213,731.64	64,612,190.00	27%
Raindrops Cess	162,498,875.12	66,195,008.80	41%
Total	980,338,033.75	230,511,359.80	24%

Controls over revenue collection should be re-evaluated for effectiveness, consequently improving on revenue performance.

17.0 Project Status and Implementation

17.1 Project Status

Review of project implementation status reports revealed delay in implementation of projects. Some projects planned and commenced in financial year 2013/14 are still incomplete with some stalled and no work going on at all. The table below gives a summary of the incomplete projects budgeted from 2013/14 to 2016/17 as per project status report availed by various departments during the audit.

Financial Year	Total		
Department	Contracted Amount (Kshs.)	Amount Paid (Kshs.)	Work Outstanding (Kshs.)
Agriculture, Livestock And Fisheries	489,117,414	380,735,049	108,382,365
Water, Environment, Natural Resources and Solid Waste Management	692,598,700	375,311,599	317,287,101
Education, Sports and Youth Affairs	720,625,839	375,311,599	345,314,240
County Health Services	908,775,977	446,379,965	462,396,012
Total	2,811,117,930	1,577,738,213	1,233,379,717

The delays have been attributed to late payments and also non-performance by some contractors.

Failure to deliver projects on time means the service delivery to the county residents has been affected negatively. The implementation cost of the projects may escalate due to delays in the implementation of project hence requiring more resources.

This is contrary to Section 149 (1) of the Public Finance and Management Act 2012 which states that (1) an accounting officer is accountable to the county assembly for ensuring that the resources of the entity for which the officer is designated are used in a way that is; lawful and authorized. (2)(d) Ensure that all contracts entered into by the entity are lawful and are complied with.

17.2 Project Verification

Physical verifications of projects amounting to Kshs.864,325,409 during the audit in the period between November 2017 to January 2018 revealed the following:

No.	Project Name	Contract Amount (Kshs)	Amount Paid (Kshs)	Observation
	<u>Schools</u>			

No.	Project Name	Contract Amount (Kshs)	Amount Paid (Kshs)	Observation
1.	Construction of ICT Lab at Gede Youth Polytechnic	5,081,780.00	4,611,516.00	The project was practically completed but not in use. No wiring had been done to allow for electricity to be installed. The windows were all grilled as required but the door was not protected by any grills as provided for in the bills of quantities. No project signage erected.
2.	Renovation of Gede Polytechnic and two classrooms	9,850,754.00	8,178,482.00	Project ongoing with two classrooms complete but not fitted with windows. Finishing works including plastering was not complete. Contractor had abandoned site. No project signage erected.
3.	Construction of 4no. Classrooms for Amoeba Pre-School in Gongoni	6, 419,072	3,009,272.00	The project had reached lintel stage. The project had reached lintel stage. The contractor had abandoned site
4.	Construction of 4no. Classroom Block, 4 Cubicle Latrine and 2 No. Cubicle Latrine at Vipingo Pre-School	7,844,372.00	5,316,427.00	The contractor had not been paid for work done. The classrooms were all complete, fitted with electricity fittings yet there was no power connection. The latrines were also complete and in use. The height of the corridor

No.	Project Name	Contract Amount (Kshs)	Amount Paid (Kshs)	Observation
				appeared too high for the students implying that the safety standards may not have been applied. The school had received 108 chairs from the county. However, they were not put into use because no tables had been provided. No project signage erected.
5.	Construction of ICT Lab At Dzitsoni Youth Polytechnic	4,984,752.00	4,979,037.00	The project was practically completed but not in use. No wiring had been done to allow for electricity to be installed. The project was not officially handed over as at 15/01/2018. The windows and doors were all grilled as provided for in the bills of quantities. The welding department was currently used as the Computer lab and had been equipped by the ICT department.
	Hospitals and Dispensaries			
6.	Construction of County Medical Warehouse	33,517,301.00	15,937,197.82	The project was started in 2013/2014 and has stalled. The contractor was not at site by time of audit visit in December 2017

No.	Project Name	Contract Amount (Kshs)	Amount Paid (Kshs)	Observation
7.	Oxygen Plant- Kilifi Hospital	45,000,000.00	45,000,000.00	Delivered but not in use. Electrical work not completed
8.	Construction of Oxygen plant Shed- Kilifi Hospital	4,030,512.80	2,662,212.00	Sheds done but electrical work still not done. The plant not in use
9.	Construction of Lutsanga/Pangani Maereni Dispensary	16,628,948.00	4,760,164.00	The dispensary was budgeted and awarded in financial year 2014/15. Letter of notification - 25/6/2015, contract signed on 7/7/2015 but first certificate was issued on - 2 Dec 2016 of kshs.4,760,164. This delay was said to be have caused by dispute over site of the facility and the dispensary has been given two different names; Lutsanga Dispensary and Pangani-Maereni Dispensary. The site visited has no sign board. The building has been roofed but no further work is going on. project stalled
10.	Construction of Lutsanga Road	5,501,184.00	5,501,154.00	The road was done to open site for construction of dispensary at Lutsanga. The road though certified as completed was observed not to have been gravelled

No.	Project Name	Contract Amount (Kshs)	Amount Paid (Kshs)	Observation
				in full as per the bill of quantities
11.	Construction of Uwanja Wa Ndege Dispensary, soak pit and staff houses	28,886,800.00	25,885,696.85	The three main projects are complete but the dispensary has not been equipped nor staffed and has been lying unutilized since January 2017
12.	Construction of Kilifi Mortuary	31,400,330.00	14,751,668.96	The projected was started in 2013/14 but stalled. The contractor has returned to the site and observed mechanical works and electrical were ongoing
13.	Construction of Bamba Sub-County Hospital Maternity and theatre	32,528,761.00	22,978,566.27	The project was started in 2014/15 but has not been completed and mechanical work was still ongoing
14.	Bamba Sub-County – Incinerator	15,290,909.00	15,290,909.00	Installed but not tested and not in use as electrical work not done
15.	Bamba Sub-County – Incinerator House	2,717,250.00	2,717,250.00	Electrical work not completed though paid in full
	Executive Projects			
16.	Construction of Mtwapa Market	134,499,111.00	43,792,418.00	The project was to be done in phases. Work has slowed down due to delay in payments and contract period has expired but work done is at 70%

No.	Project Name	Contract Amount (Kshs)	Amount Paid (Kshs)	Observation
				according to project status
17.	Refurbishment of Department of Trade headquarters	12,500,003.40	6,031,959.40	Work not completed but contract period has elapsed. Contractor still on site.
18.	Construction of a Tailoring Block at Buni	5,000,000.00	4,164,760.00	Main works done with pit latrine not yet done. Project not fully completed
19.	Construction of Mariakani High-rise market	41,044,688.00	33,044,688.00	Project awarded in financial year 2013/14. Project has stalled with no work going on
20.	Construction of Kilifi North Sub-County Office	30,320,611.49	11,058,604.00	Project awarded on 30 June 2014. Visit to the site revealed the project had stalled and contractor was not in site.
21.	Develop and implement the Kilifi County Performance Management System	24,771,800.00	14,367,644.00	The contract was entered into on 10 April 2015. The project was to commence on 15th July 2015 and was to be completed by mid-November 2015 (80 working days). However, as at 30 June 2017, the project was yet to be completed. From 13 June 2016, no further developments have been undertaken on the project. This therefore implied that the project had

No.	Project Name	Contract Amount (Kshs)	Amount Paid (Kshs)	Observation
				stalled. Dashboard had been installed but displayed nil results, implying that it was not in use.
	Roads			
22.	Upgrading of Malindi Township Roads to Bitumen Standard(Ngala-Malindi High-Muyeye-New Bus Park) (Contract no.KCG/RTPW/002/2016/2017)	222,113,018.00	70,133,615.08	Project Stalled (start date as at the time of visit on 17 November 2017. the project is late by 9 months and contractor was not on site.
23.	Upgrading to Bitumen Standard of BP petrol station-Eden Rock Road. (KCG/RTPW/061/2016/2017)	100,000,000.00	73,369,448.00	The project was to be done in phases. Work has slowed down due to delay in payments and contract period has expired but work done is at 70% according to project status
24.	Upgrading of Malindi Township Roads to Cabro Standard (Ngala-HGM-Kisumu Ndogo-Kanu Office)	183,963,340.00	47,763,912.00	Project stalled as at the time of visit on 17 November 2017. Contractor was upgrade the road of 3 km to cabro status, only 0.9 kms had done. LSO was not dated
25.	Rehabilitation of Tezo	9,969,214.00	9,955,908.47	Signage board indicated as sokoni ward roads. 2.0 km gravelled and 0.2 km was graded. Lso was awarded 5/1/2017 after work had commenced as

No.	Project Name	Contract Amount (Kshs)	Amount Paid (Kshs)	Observation
				minuted on 26/12/2016
26.	Completion of Mtwapa Bus park (Contract no.KCG/RTPW/19 2877/2015/2016/4	180,000,000.00	91,441,935.00	At the time of visit 18 November 2017 we observed that the project had been abandoned. The project was to be completed in August 2016.
27.	Kilifi Mnarani Street lights	36,000,000.00	35,981,142.00	The project is complete and in use
	Agriculture and Other Projects			
28.	Purchase of tractors	55,900,000.00	55,900,000.00	Tractors were delivered 22nd Dec 2016, they are still held at Mtwapa ATC. Registration numbers have not been fixed.
29.	proposed construction of ice flake plant room; Malindi fisheries	2,607,709.00	1,174,036.00	There was evidence of cracks in the veranda of the building
30.	Establishment of Burangi irrigation scheme	20,252,614.00	14,045,320.00	Two contractors are implementing the irrigation projects in one locality making it impossible to distinguish the specific lines fixed by each of the contractors. There was no signage to identify the projects.
31.	Supply, delivery and installation of pipes and fittings for burangi irrigation project	9,548,089.92	8,936,648.00	Two contractors are implementing the irrigation projects in one locality making it impossible to distinguish the specific lines fixed by each of the

No.	Project Name	Contract Amount (Kshs)	Amount Paid (Kshs)	Observation
				contractors. There was no signage to identify the projects.
32.	Establishment of Dagamra irrigation project	13,968,027.00	13,968,027.00	Four (4) pumps delivered. Two (2) were in use the other two are idle, one was said to be having injector problems. Pipes are few thus supplying irrigation water to a small population. No signage
33.	Fencing of cattle dip at Sabaki	1,576,266.00	611,958.00	Not functional. The contractor was not on site. The project had stalled after fixation of concrete poles; wire mesh had not been fixed. It was evident that the cattle dip is not being used by the residents as the dip was bushy.
34.	Supplying and installation of network at ATC Mtwapa.	819,503.00	819,503.00	Connection done though it was not functional for failure to pay subscription fee.
35.	Erection and completion of slaughter house at Marafa ward in Magarini sub county	14,006,744.80	4,440,131.40	No signage to identify the project and the implementing agency. Roofing had been done to the structure and iron sheets fixed although the contractor was not on site.

No.	Project Name	Contract Amount (Kshs)	Amount Paid (Kshs)	Observation
36.	Construction of a social hall at Mpirani - Magarini ward	9,616,284.00	4,062,484.00	There were no signage/ sign boards. The contractor was not on site. The social hall was constructed up to the roofing stage. Windows, doors and iron sheets had not been fixed.
37.	Construction of social hall in Bomani in Magarini	11,952,988.00	2,077,235.00	The contractor was not on site. Walls had been erected up to the window level
38.	Cost of construction of social hall in Malindi	9,140,660.00	3,647,631.60	The project was complete but not handed-over. There was no signage to identify the project
39.	Construction of Chonyi Amphitheatre.	23,054,478.00	4,924,067.75	The contractor was not on site. Transparent window in the roof had not been fixed. There was no fence and gate
40.	Supply, delivery, installation of desktop computers, 1 photocopier computer desk, chairs and installation of LAN for Dzitsoni youth polytechnic.	2,999,760.00	2,999,760.00	The equipment were confirmed to have been delivered and installed at the welding department since the building to install the computers was not complete yet. Chairs were of poor quality.
41.	Drilling and equipping of Mwawesa borehole	10,971,052.00	6,582,631.20	Drilling, casing, solar pumping, storage tank (one instead of two) done. Reverse osmosis plant worth 90,000 not done, control room under

No.	Project Name	Contract Amount (Kshs)	Amount Paid (Kshs)	Observation
				construction. Borehole in use at the time of the visit.
42.	Kambicha-Marereni water supply pipeline project	23,887,177.17	16,721,031.70	Project was not in use as a dispute had arose with an existing World Vision Community project where the solar powered pumps could not sustain the increased demand. The County Government bought a generator to supplement the pumping, no pump thus projects not in use
43.	Drilling and equipping of Ndigiria borehole	10,971,052.00	6,582,631.20	Drilling had been done and the borehole collapsed, no casing, no tanks, no solar installation, no water
44.	Mapawa-Kolewa Phase II Water supply project	8,997,620.00	8,997,620.00	Physical verifications done revealed piping had been done and one out of the 2 water kiosks required had been constructed. An old line which was supplying the village twice a week before this project was commissioned was uprooted thus the village now has no water. Project had stalled and contractor had abandoned site.

No.	Project Name	Contract Amount (Kshs)	Amount Paid (Kshs)	Observation
45.	Drilling and equipping of Kabatheni borehole	10,971,052.00	6,582,631.20	Work had not started at the project site. A pole dug into the earth was indicated as the site where the geologists recommended for the borehole.
46.	Drilling and equipping of Makonjeni borehole.	10,971,052.00	6,582,631.20	Drilling done and salty water found, casing, solar pumping, storage tank platform and control room done. A damaged tank on site (not on platform). No water for the community
47.	Mtwapa Scheme/Mtomondoni water supply project	19,950,000.00	-	Project had not started despite the award to the company more than six months ago. The project file had no correspondence on the reasons for delay or any remedial action taken on the contractor for breach of contract.
48.	Bamba - Ganze Rising Main Water Project	170,000,000.00	105,547,535.00	Physical verification of the project on 16th January 2018 revealed that the project was ongoing. However, the original contractor did the first phase and left site and a partnership between Red Cross and the County Government to complete the project. However, no

No.	Project Name	Contract Amount (Kshs)	Amount Paid (Kshs)	Observation
				proper documentation of project agreement and site takeovers. Also no bill of Quantities availed
49.	Mitsedzini-Mirihinini Water Project	20,990,900.00	2,650,000	Project had stalled with the contractor only laying the pipes, three water kiosks and the storage water tanks not been constructed. However, the Contractor invoiced the County for an expenditure of Kshs 2,725,000 for piping and for training the water stakeholders and management committee. The contractor was not in site as at the time of audit.
	Total	1,684,017,504	864,325,409	

Consequently, the propriety and value for money for Kshs.864,325,409 spent on projects for the year ended 30 June 2017 could not be confirmed.

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 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 Executive's ability to continue as a going concern/ sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis

of accounting unless the management either intends to liquidate the County Executive 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 Executive's financial reporting process.

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

My responsibility is to conduct an audit of the County Executive'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. 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 Executive'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 Executive'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 Executive's to cease to continue 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 Executive's 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

31 July 2018