REPORT OF THE AUDITOR-GENERAL ON COUNTY EXECUTIVE OF KILIFI FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of County Executive of Kilifi set out on pages 1 to 47, which comprise the statement of assets and liabilities as at 30 June, 2019, statement of receipts and payments, statement of cash flows and the summary statement of appropriation - 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 Executive of Kilifi 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. Differences between the Statement of Receipts and Payments and the Integrated Financial Management Information System (IFMIS) Figures

The statement of receipts and payments figures presented for audit review were at variance with IFMIS report figures as summarized below: -

Component	Financial Statement Figure (Kshs.)	IFMIS Figure (Kshs.)	Variance (Kshs.)
Receipts			
Exchequer Releases	11,616,361,508	11,610,361,508	6,000,000
Own generated revenue	864,317,126	678,108,391	186,208,735
Total Receipts	**12,480,678,634**	**12,288,469,899**	**192,208,735**
Payments			
Compensation of Employees	3,796,124,183	3,675,104,515	121,019,668
Use of Goods and Services	2,466,324,997	2,522,476,578	(56,151,581)
Other Grants and Transfers	1,739,246,725	1,687,387,340	51,859,385
Acquisition of assets	2,829,276,111	2,874,051,274	(44,775,163)
Total Payments	**10,830,972,016**	**10,759,019,707**	**71,952,309**

The Management explained that the figures in the financial statements were the correct figures and wrote to National Treasury to look into the issue. However, by the time of conclusion of this report, no reconciliations had been done.

In the circumstances, the accuracy and completeness of the figures reflected in the statement of receipts and payments for the year ended 30 June, 2019 could not be confirmed.

2. Cash and Cash Equivalents - Stale and Unpresented Cheques

The statement of assets and liabilities reflects bank balances of Kshs.1,742,179,579. However, the bank accounts balance excludes two (2) stale cheques totalling to Kshs.1,372,677 that had not been reversed in the cashbook. Further, the Management had two (2) unpresented cheques totalling to Kshs.47,415,938 but subsequent reconciliation statements had not been availed for audit review to confirm whether they were cleared or not.

Consequently, the accuracy and completeness of the bank account balances totalling to Kshs.1,742,179,579 reflected in the statement of assets and liabilities as at 30 June, 2019 could not be confirmed.

3. Unauthorized Re-Allocation of Development Funds

The Management made payments amounting to Kshs.629,860,403 for construction and civil works. However, the amount excludes an amount of Kshs.17,197,618.10 reallocated from development vote to recurrent vote and used to pay various local service providers for garbage collection services, contrary to Section 154 of the Public Finance Management Act, 2012 which states that 'an accounting officer shall not authorize the transfer of an amount that is appropriated for transfer to another County Government entity or person for capital expenditure except to defray other capital expenditure; or for wages to non-wage expenditures'.

4. Loss of Cash

As was reported during the previous years' audits, and as disclosed under Note 12 to the financial statements, the statement of assets and liabilities reflects accounts receivables balance of Kshs.50,260,932. However, the figure includes a cash balance of Kshs.43,240,740 which was lost through online transfer from the Recurrent Bank Account to fictitious individuals or firms under unclear circumstances as they had not been contracted by the County. Management has indicated that the matter was reported to the relevant Government agencies and is under investigation.

5. Unsupported Expenditure

As disclosed under Note 6 to the financial statements, the statement of receipts and payments reflects a balance of Kshs.2,466,324,997 under use of goods and services . However, the Management did not avail supporting documents by way of files and payment vouchers for nine (9) projects with a total contract value of Kshs.99,169,895 for audit review.

In the circumstances, the validity, accuracy and completeness of the use of goods and services amount of Kshs.2,466,324,997 reflected in the statement of receipts and payments for the year ended 30 June, 2019 could not be confirmed.

6. Failure to Submit Accounts by the Receiver of Revenue

Note 3 to the financial statements reflects County own generated revenue of Kshs.864,317,126. However, the audit revealed that the receiver of revenue did not submit an account to the Auditor-General, contrary to Section 165 sub section 1 of the Public Finance Management Act, 2012 which states that at the end of each financial year, a receiver of revenue for a County Government shall prepare an account in respect of the revenue collected, received and recovered by the receiver during that financial year.

Consequently, it has not been possible to determined the amount that was realised and the purpose for which it was applied.

7. Unsupported Accounts Payables Balance

As disclosed under Note 13 to the financial statements, the statement of assets and liabilities reflects accounts payables of Kshs.310,200,262. However, only an amount of Kshs.2,616,915 had been supported by schedules leaving an unsupported balance of Kshs.307,583,347.

Consequently, the accuracy and completeness of the accounts payables balance of Kshs.310,200,262 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 County Executive of Kilifi 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

Budgetary Control and Performance

According to the summary statement of appropriation recurrent; and development combined, the County Executive had an approved balanced budget of

Kshs.14,471,491,081 but realised actual receipts amounting to Kshs.13,492,154,785 while actual expenditure totalled to Kshs.11,896,888,844 resulting to an under expenditure of Kshs.1,595,265,942 or 12% of the realised receipts. In particular, the County Government had an approved Own Generated receipts budget of Kshs.1,345,066,521 but collected Kshs.864,317,126 resulting to an undercollection of Kshs.480,749,395 or 35.6%.

The under expenditure affected the planned activities and could have impacted negatively on service delivery to the public.

Pending Bills

The financial statements for the year ended 30 June, 2019 reflects pending bills amounting to Kshs.1,166,851,970 as disclosed in other important disclosure under Note 1. However, the audit revealed that the pending bills amounting to Kshs.8,193,860 were supported with photocopies of invoices, local purchase orders and delivery notes instead of original documents.

Consequently, effectiveness of internal controls and governance measures on Management of pending bills could not be confirmed.

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 Resources 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

1.0 Compensation of Employees

1.1 Non-Remittance of Payroll Deductions

During the year under review, the Management made several staff deductions amounting to Kshs.41,259,172.35. However, Management had not remitted to the relevant bodies as at the time of the audit. This is contrary to Section 19 (4) of the Employment Act, 2007 which requires an employer who deducts an amount from an employee’s remuneration in accordance with subsection (1)(a), (f), (g) and (h) to pay the amount so deducted in line with the time period and other requirements specified in the law, agreement, court order or arbitration as the case may be.

1.2 Irregular Payroll Deductions

Examination of the payroll revealed that the net pay for twenty-seven (27) employees totalling to Kshs.2,904,470 was less than a third of their corresponding basic pay of Kshs.9,918,275. This is contrary to Section 19 (3) of the Employment Act, 2007 which provides that 'without prejudice to any right of recovery of any debt due, and notwithstanding the provisions of any other written law, the total amount of all deductions which under the provisions of subsection (1), which may be made by an employer from the wages of his employee at any one time, shall not exceed two-thirds of such wages'.

Consequently, the management was in breach of the Law.

2.0 Use of Goods and Services

The statement of receipts and payments reflects use of goods and services of Kshs.2,466,324,997 as disclosed under Note 6 to the financial statements. However, the following unsatisfactory matters were noted: -

2.1 Invalid Local Purchase Order and Local Service Order

The Management made payments of Kshs.22,865,379 whose local purchase orders and local service orders were beyond the validity period of thirty (30) days contrary, to Regulation 52.(1) of the Public Finance Management (County Governments) Regulations, 2015 which stipulates that 'a local purchase order or local service order shall be valid for a period of thirty (30) days from the date of issue'.

2.2 Unsupported Training Expenses

Management incurred training expenses of Kshs.65,611,149. However, evidence of training needs assessments to identify skills gap, identification and selection and annual training plans to inform budget allocation and skills gap to be filled were not availed for audit review. In addition, the annual training plan to identify when staff will be trained or inducted and to ensure that each staff undergoes at least 5 days of training was not availed for audit verification contrary to Section H1 (4) of the Human Resource Policies and Procedures Manual of May 2016 which states that 'Public officers shall be eligible for at least five (5) days training in a year while newly recruited or transferred officers must be inducted within three (3) months of joining public organizations.

2.3 Hospitality Supplies and Services

The Management incurred hospitality supplies and services of Kshs.282,146,226. However, included in this amount is prepayment for hotel and conference facilities amounting to Kshs.2,453,663.80 to a hotel for team building and bonding activities. Further, the list of participants, availed for audit review was a photocopy with hand written date. In addition, arrival and departure dates were not indicated in the pro-forma invoice, hence it was not possible to confirm when the services were actually rendered by the hotel.

2.4 Foreign Travel Expenses

The Management spent Kshs.59,095,662 on foreign travel and subsistence payments which include foreign travel and training of Kshs.978,576. However, the Management did not avail supporting documents by way of; annual work plan, the intended benefits to be achieved and how the participants were identified, for audit verification. This is contrary to Section 149(1) of the Public Finance Management Act, 2012 which requires an accounting officer for a County Government entity to be accountable to the County Assembly for ensuring that the resources of the respective entity for which the Accounting Officer is responsible are used in a way that is lawful, authorized, efficient, economical and effective.

2.5 Unauthorized Contributions to the Council of Governors

The Management incurred other operating expenses of Kshs.300,705,564. This amount includes payments of Kshs.12,859,383 to the Council of Governors as intergovernmental contributions, contrary to Section 37 (c) of the Intergovernmental Relations Act, 2012, which states that 'the operational expenses in respect of the structures and institutions established in this Act shall be provided for in the annual estimates of the revenue and expenditure of the National Government to cater for the Council of County Governors'.

In the circumstances, the Management was in breach of the Law. Further, we could not confirm whether residents of Kilifi got value for money on the use of goods and services of Kshs.2,466,324,997 reflected in the statement of receipts and payments for the year ended 30 June, 2019.

3.0 Acquisition of Assets

As disclosed under Note 10 to the financial statements, the statement of receipts and payments reflects acquisition of assets of Kshs.2,829,276,111. Review of the expenditure revealed the following anomalies: -

3.1 Irregular Contract - Supply of Heifers

Purchase of certified seeds, breeding stock and live animals includes Kshs.18,774,460 for supply and delivery of eighty-one (81) in-calf heifers and 4,999 straws of bull semen. However, the contract agreement was signed on 24 January, 2019 and entered into elapsed on 31 January, 2019, contrary to Section 135 (3) of the Public Procurement and Asset Disposal Act, 2015 which states that 'a written contract shall be entered into within the period specified in the notification but not before fourteen days have elapsed following notification'.

3.2 Payment for Certified Seeds, Breeding Stock and Live Animals Before Delivery

Under the purchase of certified seeds, breeding stock and live animals is included Kshs.4,518,800 for the supply and delivery of 8,000 tree seedlings to Kilifi Sub-Counties. However, payment to the suppliers was made on 9 May, 2019 while delivery of the seedlings was done on 11 May, 2019 and 29 May, 2019 contrary, to Section 146 of the Public Procurement and Asset Disposal Act, 2015 which states that 'no works, goods or services contract shall be paid for before they are executed or delivered and accepted by the Accounting Officer of a procuring entity or an officer authorized by him or her in writing except where so specified in the tender documents and contract agreement'.

3.3 Delayed Completion of Administrator's Building

The Management entered into a contract for construction of Rabai Sub-County Administrator's building at a contract sum of Kshs.8,289,230 which was to be completed by 11 March, 2015. However, as at the time of audit in the month of October, 2019, the project had not been completed. In addition, the Management did not provide, for audit review, the contractor's request for extension of time to complete the project and the contractors' all risk insurance. This is contrary to Section 149 (2) (e) of the Public Finance Management Act, 2012 which states that 'the Accounting Officer should ensure that all contracts entered into by the entity are lawful and are complied with'.

3.4 Undelivered Antivirus Licenses

The Management made payments of Kshs.4,995,900 for supply and delivery of 600 user license keys and support services for antivirus and security. The installation and commissioning certificate was issued by the supplier on 14 February, 2019 and license certificate issued on 30 January, 2019 while an inspection and acceptance report was issued on 14 March, 2019. However, physical verification in the month of September, 2019 revealed that only 254 machine/users out of 842 machines were serviced leaving a balance of 346 licenses not used since county officers declined to have their machines under the security of the County Government. It is not clear how the 600 licenses were purchased without first involving the users, and the Management has not indicated how they intend to deal with the situation considering that the contract is still running without the purchased antivirus.

Consequently, the Management was in breach of the law. Further, it was not possible to confirm whether the citizens of Kilifi County got value for money on acquisition of assets of Kshs.2,829,276,111 reflected in the statement of receipts and payments for the year ended 30 June, 2019.

4.0 Outstanding Imprests

Disclosed under Note 12 to the financial statements is outstanding imprests of Kshs.7,020,192 out of which Kshs.3,311,768 has been outstanding for more than one year in contravention of Section 93(5) of the Public Finance Management (County Governments) Regulations, 2015 which requires imprests to be surrendered within 7 working days after return to duty station. Management explained that the amounts relate to imprests held by officers who had transferred services without full clearance from the County. Management have also written to the organizations where these officers are currently stationed to initiate the process of recovery

Consequently, the Management was in breach of the law.

5.0 Wasteful Utilization of Public Resources - Valuation Roll

Note 3 to the financial statements for the year ended 30 June, 2019 reflects county own generated revenue of Kshs.864,317,126. Included in this balance is an amount of Kshs.187,241,170 in respect of land rates and other land revenue collected during the year. However, the County Government has not yet adopted the valuation roll that would have enabled it to capture all the revenue.

Further, Note 6 to the financial statements for the year ended 30 June, 2019 reflects office and general supplies and services amounting to Kshs.120,560,234. This amount includes a payment of Kshs.2,900,000 to a firm for consultancy services on revision of the valuation roll. Records availed for audit review indicated that the Management had previously, on 13 October, 2015, paid an amount of Kshs.37,885,000 to the same company for the preparation of the valuation roll. However, at the time of audit in October, 2019, the valuation roll had not been put into use. The Management has not explained why it has taken long to implement the use of the valuation roll which was aimed at increasing revenue collection in the county.

In the circumstances, the citizens of Kilifi County are not getting value for money used in the preparation of the valuation roll.

6.0 Unsatisfactory Implementation of Projects

Physical verification done in October, 2019 of twenty-two (22) sampled projects with a total contract sum of Kshs.392,938,325 revealed that various Projects were completed but not in use while in some there was evidence of poor workmanship. A site visit of the projects revealed that there were six (6) projects that had been completed but were not in use as at the time of the audit. This raises doubt on how the decision to undertake the projects was arrived at. Further, inspection of three school projects revealed that the toilets erected in the three (3) projects were not completed even though the school was operational and this has been part of the contract works. Road shoulders and road furniture had also not been completed for three (3) road projects.

No satisfactory explanations have been rendered for the deficiencies in projects implementation contrary to the values and principles of public service as provided for under Article 232 (1– c) of the Constitution which requires responsive, prompt, effective, impartial and equitable provision of services.

Consequently, it was not possible to confirm that the residents of Kilifi obtained value for money on the implementation of the 22 projects valued at Kshs. 392,938,325

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, except for the matters 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. Failure to Maintain Updated Assets Register

Examination of the assets register established that most of the departmental assets' registers were not updated with asset details such as estimated useful life and date of disposal, location of the asset and where applicable, proceeds on disposal. Further, the items were not tagged contrary to Section 7.2.2 of the County Financial Accounting & Reporting Manual which states that 'an asset should have a tag number for identification of the asset to show, the engraved number of items of furniture and office equipment, if land – the registration details, if vehicles – the vehicle registration number, if land – the title number and if buildings – the block number and age'.

In the circumstances, the Management was in breach of its own internal controls and regulations.

2.0. Lack of Controls on Distribution of Furniture and Equipment

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects an expenditure of Kshs.2,829,276,111 under acquisition of assets which includes payments in respect of office furniture and general equipment amounting to Kshs.15,020,438 made to various suppliers for supply and delivery of Early Childhood Development Education chairs, tables and learning materials . Available records indicated that the Management designed distribution forms to record quantities issued and acknowledgement of delivery by the recipients/beneficiaries. However, the forms were not serialized for accountability and control purposes. In addition, from the list of twenty-eight (28) schools which applied for furniture, only six (6) schools benefited. The furniture meant to be supplied to the remaining twenty-two (22) schools was diverted to other schools which had not applied for the same.

In the circumstances, effectiveness of control measures to ensure the items reached deserving cases was in doubt.
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 Executive'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 Executive 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 Executive 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 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 County Executive 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 County Executive 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

13 November, 2020