

REPORT OF THE AUDITOR-GENERAL ON THE COUNTY EXECUTIVE OF MOMBASA 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 Mombasa set out on pages 7 to 132, which comprise the statement of financial assets and liabilities as at 30 June 2017, and the statement of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts 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 effect of matters described in the Basis of Qualified Opinion section of my report, the financial statements present fairly, in all material respect, the financial position of the County Executive of Mombasa as at 30 June 2017, 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.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, 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 for the year ended 30 June 2017 presented for audit verification had the following key information missing:

- a) Key management details;
- b) Statement of corporate governance and statement of compliance;
- c) Information of amounts on related parties' transactions at Note. 27 was incomplete; and
- d) Progress on follow up of auditor recommendations were not indicated.

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

2.0 Inaccuracies in the Financial Statements

2.1 Variance between Financial Statements and Integrated Financial Management and Information System

The figures in the financial statements for the year ended 30 June 2017 contained discrepancies amounting to Kshs.14,948,430,445 compared with IFMIS records as summarized below:

| Description | Amounts as per financial statements submitted (Kshs.) | Amount as per IFMIS (Kshs.) | Variance (Kshs.) |
|-----------------------------------|---|-----------------------------|-------------------------|
| Total Receipts | 9,530,991,400 | 0 | 9,530,991,400 |
| Total Payments | 9,507,075,631 | 169,697,838 | 9,337,377,793 |
| Total Cash and cash equivalents | 260,220,563 | 9,337,377,793 | (9,077,157,230) |
| Receivables – outstanding imprest | 164,657,051 | 489,135,881 | (324,478,830) |
| Payables – Deposit and retentions | 14,587,788 | 24,429,751,366 | (24,415,163,578) |
| Total | 19,477,532,433 | 34,425,962,878 | (14,948,430,445) |

It was not clear why the expenditure in IFMIS varied with expenditure as presented in the financial statements and therefore the validity of the figures contained in these financial statements for the year ended 30 June 2017 could not be ascertained.

2.2 Errors in the Financial Statements

2.2.1 Balances with Arithmetical Accuracies

Audit recomputation of the following balances in the financial statements revealed casting errors amounting to Kshs.509,319,262 as detailed below:

| Account | Note to the financial statements | Balance as per Financial Statements (Kshs.) | Recomputed balance (Kshs.) | Variance (Kshs.) |
|--|----------------------------------|---|----------------------------|--------------------|
| Exchequer releases | 1 | 5,978,536,119 | 5,962,433,368 | 16,102,751 |
| Transfers from other government entities | 3 | 383,064,320 | 271,236,320 | 111,828,000 |
| Total | | 6,361,600,439 | 6,233,669,688 | 127,930,751 |

In addition, variance of Kshs.381,388,511 was noted in the opening balances in the statement of cash flow as shown below:

2.2.2 Comparative figures with Variances with Audited Financial Statements

| Balance | Figure as per 2015/2016 | Figure as presented in | Variance (Kshs.) |
|---------|-------------------------|------------------------|------------------|
|---------|-------------------------|------------------------|------------------|

| | Audited Financial Statement (Kshs.) | the Financial Statement (Kshs.) | |
|--|--|--|--------------------|
| Comparative balances in Financial Statement - Exchequer releases | 5,600,804,835 | 5,197,893,978 | 402,910,857 |
| Comparative balances in Financial Statement - Other grants and transfers | 346,854,712 | 368,377,058 | (21,522,346) |
| Total | 5,947,659,547 | 5,566,271,036 | 381,388,511 |

In the circumstances, the accuracy and completeness of the opening balances variance of Kshs.381,388,511 for the year ended 30 June 2017 could not be confirmed.

3.0 Bank Balances

3.1 Unsupported Bank Balances

The statement of assets as at 30 June 2017 reflects bank balance of Kshs.259,676,769. However, included in the bank balance of Kshs.259,676,769, is an amount of Kshs.22,261,933 being balances of six bank accounts and whose cash books and bank reconciliation statements were not availed for audit review as shown below:

| No. | Name of Bank, Account No. | Account Name | Balance (Kshs.) |
|------------|----------------------------------|--------------------------|------------------------|
| i | Eco Bank | Cost Sharing | 483,178 |
| ii | Equity Bank | Mock | 624,345 |
| iii | Equity Bank | Business Current Account | (3,696) |
| iv | Standard Bank | LASDAP | 1,064,900 |
| v | Kenya Commercial Bank | Salary control | 93,206 |
| vi | Chase bank | Revolving fund | 20,000,000 |
| | Total | | 22,261,933 |

In the foregoing, the accuracy and completeness of the bank balance amounting to Kshs. 259,676,769 as at 30 June 2017 could not be confirmed.

3.2 Defunct Local Authority's Bank Accounts

As reported in previous audits, a review of the supporting list of bank account balances of Kshs.259,676,769 for the year ended 30 June 2017 revealed that five (5) bank accounts of the defunct Municipal Council of Mombasa were still operational. This is contrary to Section 119 (2) of the Public Finance Management Act, 2012 which requires each County Treasury to establish a single account at the Central Bank of Kenya or a bank approved by the County Treasury. No proper explanation was given for the anomaly.

3.3 Non-closure of Bank Accounts in Commercial Banks

As reported in the year previous audits, the County Executive operates seventeen (17) bank accounts in various Commercial Banks which include the bank accounts for the defunct local authority.

As at the time of audit, seven (7) bank accounts with a total balance of Kshs.22,698,565 had not been closed and neither were bank reconciliations submitted to the Office of the Auditor-General as detailed below:

| No. | Name of Bank | Account Name | Balance as at 30 June 2017 (Kshs.) |
|-----|-----------------------|----------------|------------------------------------|
| i | Chase Bank | Revolving fund | 20,000,000 |
| ii | Co-operative Bank | LAFT | 21,486 |
| iii | Eco Bank | Cost Sharing | 483,173 |
| iv | Equity Bank | Mock | 624,345 |
| v | Equity Bank | Business C/A | (3,696) |
| vi | Kenya Commercial Bank | MSA Deposit | 508,357 |
| vii | Standard Bank | LASDAP | 1,064,900 |
| | Total | | 22,698,565 |

This is contrary to Section 82(1) a & b of the Public Finance Management (County Government) Regulations, 2015 which requires all County exchequer accounts to open at the Central Bank of Kenya except imprest bank account, revenue bank account and County public fund bank accounts. No proper explanation was provided for this anomaly.

3.4. Bank Accounts Omitted in the Financial Statements

According to Note 21A to the financial statements, the bank balance of Kshs.259,676,769 relates to twenty two (22) bank accounts. However, according to the 2015-2016 audited financial statements, the County Executive operated the following bank accounts which have been omitted from this financial statements although there was no evidence that they had been closed as shown below:

| Bank | Account Name | Balance as at 30 June 2016 (Kshs.) |
|------------------------|---------------------|------------------------------------|
| Kenya Commercial Bank | Kenya Roads levy | 0 |
| National Bank of Kenya | Free maternity levy | 2,944,806 |

Consequently, the accuracy and completeness of the bank balance of Kshs.259,676,769 as at 30 June 2017 could not be confirmed.

4.0 Cash Balances

The statement of assets as at 30 June 2017 reflects a cash balance of Kshs.543,794. According to Note 21B to the financial statements, cash balance of Kshs.543,794 relates to unbanked cheques which had been receipted. However, Mpesa paybill collections for 29th and 30th of June 2017 and information available indicates that Kshs.86,897,466 was on E-citizen revenue collection platform which have not been disclosed under cash balance. It is not clear and the management has not explained how this cash balance has been accounted for in these financial statements. In the circumstances, the accuracy and completeness of cash balance of Kshs.543,794 as at 30 June 2017 could not be confirmed.

5.0 Outstanding Imprest

The statement of assets as at 30 June 2017 reflects outstanding imprest amounting to Kshs.164,657,051. Audit verification of outstanding imprest revealed the following:

5.1 Staff Holding Multiple Imprest

The audit examination revealed that Kshs.99,852,523 was held by seventy seven (77) officers as multiple un-surrendered imprest contrary to Section 93 (5) of Public Finance Management (County Government) Regulations, 2015 which provides that a holder of a temporary imprest shall account or surrender the imprest within seven (7) working days after returning to duty station. Although the management argue that some of the imprest has since been surrendered, it was irregular to receive multiple imprest. The propriety and regularity of multiple imprest balance of Kshs.99,852,523 could not be ascertained.

5.2 Imprest Signed on behalf of Other Officers

It was observed that during the period under audit, imprest amounting to Kshs.5,393,990 was issued on behalf of other staff contrary to the Section 91(2) of the Public Finance Management (County Government) Regulations, 2015 which states, “that the officer authorized to hold and operate imprest shall make a formal application for imprest through an imprest warrant”. It was not clear why the officers could not take responsibility for their imprests. It was further noted that there were no clear security arrangements while carrying such large amounts of cash to avoid loss of public funds as stipulated in Section 89 of the Public Finance Management (County Government) Regulations, 2015 on security for cash in transit. The County Executive was therefore in breach of the law.

In the circumstances, the accuracy, propriety and recoverability of outstanding imprest balance of Kshs.164,657,051 as at 30 June 2017 could not be ascertained.

6.0 Deposits and Retentions

The statement of assets as at 30 June 2017 reflect a balance of Kshs.14,587,788 in respect of accounts payables – deposits and retentions. However, there was no record of outstanding deposits and retentions payable as at 30 June 2017. It was therefore not possible to confirm the adequacy of the balance of Kshs.14,587,788 in deposit bank account. In addition, examination of Kenya Commercial Bank deposit account cash book revealed in January, 2017, three payments totaling Kshs. 10,700,000 were made in the name of a staff for disaster management. Although the cheques had not

cleared as at 30 June 2017, it was not properly explained why expenditure was paid from the deposit account which holds money due to third parties.

In the circumstances, the propriety and accuracy of accounts payables – deposits and retentions balance of Kshs.14,587,788 as at 30 June 2017 could not be confirmed.

7.0 Exchequer Releases

The statement of receipts and payments reflects Kshs.5,978,536,119 in respect of exchequer releases for the year ended 30 June 2017. The figure of Kshs.5,978,536,119 comprises of equitable share of Kshs.5,608,593,922 and conditional grant to Level 5 hospital of Kshs.369,942,197. However, audit verifications revealed that there was no evidence of separate books of accounts maintained for conditional grant as set out in Annex 3 of the County Allocation of Revenue bill, 2016. In addition, there was no evidence the Accounting officer prepared and submitted quarterly performance reports to County treasury with copies to the National Treasury and Ministry of Health on the utilization of Level 5 grant County Allocation of Revenue bill, 2016. It was therefore no possible to determine whether the funds were utilized towards sustaining the activities of Coast General Hospital in the provision of medical training, specialized and inter—county referral services as a condition set out for the grant.

In the foregoing circumstances, the validity and regularity of exchequer releases amounting to Kshs.369,942,196 for the year ended 30 June 2017 could not be ascertained.

8.0 Transfers from Other Government Entities

Included in the transfers from other government entities figure of Kshs.383,064,320 as detailed in Note 3 to the financial statements are funds for leasing of medical equipment, free maternity healthcare, user foregone and road maintenance levy. However, contrary to the County Allocation of Revenue bill, 2016, there were no separate books of accounts maintained for each grant. It was therefore not possible to confirm if the funds were utilized for intended purpose. Therefore, the County Executive was in breach of the law.

As a result, the validity and regularity of transfers from other government entities figure of Kshs.383,064,320 for the year ended 30 June 2017 could not be ascertained.

9.0 County Own Generated Receipts

9.1 Rates

As reported in 2015/2016 report, other property income of Kshs.940,652,182 at Note 9 to the financial statements relates to property rates. However, the valuation roll which was used for billing the plot owners had not been updated with new land subdivisions while more than 4,000 plots had been registered in the name of owners who could not be identified. Information available indicates that the process of coming up with new valuation roll has been on-going for the last 3 years. It is not clear and the management has not explained why the process has not been finalized.

Consequently, the accuracy and completeness of other property income of Kshs.940,652,182 for the year ended 30 June 2017 could not be confirmed.

9.2 Revenue Not Transferred to County Revenue Fund Account

According to the Local Authorities Integrated Financial and Operations Management System (LAIFOMS) report for the year ended 30 June 2017 availed for audit, total revenue collected amounted to Kshs.3,166,240,961. However, audit verifications of transfers of revenue to County Revenue Fund Account revealed that only a total of Kshs.2,672,021,632 was transferred to County revenue account resulting to a balance of Kshs.494,219,329. This is contrary to Section 109 (2) of the Public Finance Management Act, 2012 which requires each County Treasury to ensure all money raised or received by or on behalf of the County Government is paid into the County Revenue Fund account.

Further, out of the Kshs. 494,219,329 not transferred to the County Revenue Fund Account, only Kshs.417,792,406 was explained as detailed below:

| No. | Location | Amount (Kshs.) |
|-----|--|--------------------|
| 1 | Cooperative bank collection account – balance as at 30 June 2017 | 263,720 |
| 2 | KCB I Collection account– balance as at 30 June 2017 | 1,701,400 |
| 3 | KCB II Collection account– balance as at 30 June 2017 | 97,298 |
| 4 | KCB Main | 4,890,750 |
| 5 | NBK Collection account– balance as at 30 June 2017 | 35,052,723 |
| 6 | Collection Commissions and bank charges | 63,049,584 |
| 7 | Coast General Hospital revenue collections | 301,843,343 |
| 8 | Collection commissions and bank charges | 10,893,588 |
| | Total | 417,792,406 |

The balance of Kshs.76,426,923 was not reconciled.

The non-compliance with the laws could result to irregular spending of revenue at source.

9.3 Multiple Revenue Collection Bank Accounts

As reported in previous reports, the County Government of Mombasa operates four (4) revenue collection bank accounts. Two accounts in KCB, one in National Bank of Kenya and another in the Cooperative bank as detailed below:

| No. | Bank Account | Balance as at 30/06/2017 (Kshs.) |
|-----|-------------------------------------|----------------------------------|
| 1 | Cooperative bank collection account | 263,720 |
| 2 | KCB I Collection account | 1,701,400 |

| | | |
|---|---------------------------|-------------------|
| 3 | KCB II Collection account | 97,298 |
| 5 | NBK Collection account | 35,052,723 |
| | Total | 37,115,141 |

It is not clear and the management has not provided justification for operating several revenue collection bank accounts considering the banks have branches in several locations in the county. No proper explanation was provided for the anomaly.

This is contrary to Section 82(1) a & b of the Public Finance Management (County Government) Regulations, 2015 which requires all County exchequer accounts to open at the Central Bank of Kenya except imprest bank account, revenue bank account and County public fund bank accounts. No proper explanation was provided for this anomaly.

10.0 Use of Goods and Services

The statement of receipts and payments reflects Kshs.1,281,247,192 in respect of use of goods and services for the year ended 30 June 2017. Audit verifications revealed the following anomalies.

10.1 Irregular Procurement of Goods and Services

Included in use of goods and services of Kshs. 1,281,247,192 for the year ended 30 June 2017 as detailed in note 12 to the financial statements are various procurement of goods and services totaling Kshs.47,095,687. However, audit verifications of the procurement process revealed that they were done through request for quotation method whereas the amount was above the threshold of Kshs. 2 million as detailed below:

| No. | Quotation Reference | Details | Amount (Kshs.) |
|-----|---------------------------|---------------------------------------|----------------|
| 1 | CGM/PRO/QTN/140/2016-2017 | Catering services | 3,368,400 |
| 2 | CGM/PRO/QTN/382/2015-2016 | Event facilitation | 2,504,100 |
| 3 | CGM/PRO/QTN/182/2015-2016 | Supply of various items | 3,607,940 |
| 4 | CGM/PRO/QTN/416/2015-2016 | Hire of equipment | 3,360,000 |
| 5 | CGM/PRO/QTN/282/15-16 | Supply of various items | 5,389,802 |
| 6 | CGM/PRO/QTN/281/15-16 | Supply and delivery of jigsaw puzzles | 4,910,625 |
| 7 | CGM/PRO/QTN/163/2016-2017 | Drugs | 3,028,336 |
| 8 | CGM/PRO/QTN/006/2016-2017 | Mother child booklet | 3,990,000 |
| 10 | CGM/PRO/QTN/12/2015-2016 | Stationery | 2,799,080 |
| 11 | CGM/PRO/QTN/57/2016-2017 | Ultra sound | 3,520,000 |
| 12 | CGM/PRO/QTN/03/2016-2017 | Procurement of uniforms and equipment | 3,366,500 |

| | | | |
|----|--------------------------|---|-------------------|
| 13 | CGM/PRO/QTN/22/2016-2017 | Provision of items for Mombasa cultural festival | 3,372,500 |
| 14 | CGM/PRO/QTN/36/2016-2017 | Hire of stage, sound system and LED and PA system | 6,380,000 |
| | Total | | 49,597,283 |

The procurement was contrary to Section 105 of the Public Procurement and Disposal of Assets Act 2015 which provides that the procurement method may only be used if the value of the goods / service is within the set threshold. Although the management has urged that the decision was based that the cost of individual items as per Section 63 (1 - a) of the Public Procurement Regulations 2006, however, the section applies to low value procurement and not request for quotations. Therefore, the County Government is in breach of the Law.

10.2 Irregular Splitting of Tender

According to note 12 to the financial statements, use of goods and services figure of Kshs.1,281,247,192 for the year ended 30 June 2017 include a figure of Kshs.43,704,798 in respects of rentals of produced assets. Rentals of produced assets expenditure of Kshs.43,704,798 include payments amounting to Kshs.9,842,000 for hire of bulldozer. However, audit verifications of the procurement documents revealed that although the procurement was for a single item, five local purchase orders were issued to the supplier as detailed below:

| Date | LPO | Details | Amount (Kshs.) |
|--------------|---------|-------------------|------------------|
| 29.06.17 | 1408059 | Hire of equipment | 1,984,000 |
| 29.06.17 | 1408066 | Hire of equipment | 1,984,000 |
| 29.06.17 | 1408070 | Hire of equipment | 1,984,000 |
| 29.06.17 | 1408061 | Hire of equipment | 1,945,000 |
| 29.06.17 | 1408058 | Hire of equipment | 1,945,000 |
| Total | | | 9,842,000 |

This was in contravention of Section 54 (1) of the Public Procurement and Asset Disposal Act, 2015 which provides that no procuring entity may structure procurement as two or more procurements for the purpose of avoiding the use of a procurement procedure except where prescribed. The public may not have realized value for money due to lack competition and in effect the County Government is in breach of the Law.

11.0 Transfers to Other Government Units

The statement of receipts and payments reflect amount of Kshs.455,563,943 in respect of transfers to other government units for the year ended 30 June 2017. The transfers to other government units of Kshs. 455,563,943 is in respect of transfers to County Assembly. However, according to the financial statements of County Assembly of Mombasa, a total of Kshs. 528,608,574 was received from the County Treasury

leading to a variance of Kshs.73,044,631. The variance was neither reconciled nor explained.

In the foregoing, the accuracy and completeness of the transfers to other government units amount of Kshs.455,563,943 for the year ended 30 June 2017 could not be confirmed.

12.0 Other Grants and Transfers

Statement of receipts and payments reflect an amount of Kshs.331,034,759 in respect of other grants and transfers for the year ended 30 June 2017. Included in other grants and transfers figure of Kshs. 331,034,759 is scholarships and other educational benefit of Kshs.160,000,000 which are disbursements to Mombasa County Elimu Fund. However, according to the Fund's financial statements, a total of Kshs. 186,169,100 was received from the County Treasury resulting to unexplained and unreconciled variance of Kshs.26,169,100. The accuracy of the figure could not be confirmed.

In the circumstances, the accuracy and completeness of other grants and transfers figure of Kshs. 160,000,000 for the year ended 30 June 2016 could be confirmed.

13.0 Acquisition of Assets

The statement of receipts and payments reflects a balance of Kshs.2,040,167,427 for the year ended 30 June 2017 in respect of acquisition of assets. Audit verifications revealed the following anomalies:

13.1 Construction of Buildings

13.1.1 Reallocation of Funds

Included in acquisition of assets figure of Kshs.2,040,167,427 at Note.17 to the financial statements is an amount Kshs.151,614,624 in respect of construction of buildings. Audit examination of the expenditure revealed payments totaling Kshs.27,436,362 on roads, soak pit and office furniture as detailed below:

| Expenditure | Amount (Kshs.) |
|--|---------------------------|
| Improvement of Alidina road to cabro standard | 4,221,346 |
| Improvement of a section of Kalima road through Umoja estate to cabro standard | 2,918,258 |
| Supply & delivery of office furniture | 14,330,292 |
| Disludging and emptying of a soak pit and septic tanks in khadija estate | 5,966,466 |
| Total | 27,436,362 |

However, there was no evidence of reallocation of funds in line with Section 154 (3) of the Public Finance Management Act, 2012. This may have affected implementation of other budgeted activities. Consequently, the County Government is in breach of the Law.

13.2 Construction of ECDs Schools

Included in construction of in the construction of buildings figure of Kshs.151,614,624 at note 17 to the financial statements is expenditure of Kshs.56,212,583 on construction of Early Childhood Development centres. As reported in previous audits, the Department of Education undertook construction of 8 ECDs in eight locations in the financial year 2014 / 2015 at a total cost of Kshs.214,173,840. The contract duration was 32 weeks, which commenced in May 2014 and expected to have been completed in December 2015. However, as at the time of audit in the month of February, 2018, only two ECDs were completed while the remaining six were at various stages of completion, 116 weeks after the end of the official date of completion. It was also observed that the contract extension resulted into total price variation increase of Kshs.16,721,413 which could have been saved had the project been completed as scheduled. This is an indication of poor project management which has led to cost escalations. Delayed completion of the project implies that the intended beneficiaries may take long to realize the value for money and the prolonged completion date may lead to cost escalations due to inflation. In addition, it is an indication of poor project management.

In the circumstances, value for money from expenditure of Kshs.16,721,413 for the year ended 30 June 2017 could not be ascertained.

13.3 Construction of Hospitals

Included in the construction of buildings figure of Kshs.151,614,624 at note 17 to the financial statements is expenditure of Kshs.109,702,898 on construction of five sub-county hospitals. As reported in 2015/2016 audit report, the Department of Health undertook construction of five sub-county hospitals at Shika Adabu, Marimani, Mtongwe, Vikwatani and Chaani in the financial year 2014/2015. The hospitals were expected to have been completed by December 2015.

The audit revealed the following:

- i). Information available indicates that the project completion period had been extended to March 2017 although as at the time of audit, January, 2018 the projects had not been completed with no evidence of extension. The delayed completion affects service delivery to the intended beneficiaries;
- ii). There was no information on the cost variation resulting from contract extension. The public may have lost funds due to contract variations;

Delayed completion of the project implies denied service delivery to the public. Consequently, value for money from the expenditure of Kshs.109,702,898 for the year ended 30 June 2017 could not be ascertained.

13.4 Construction of Roads

Included in the balance of acquisition of assets of Kshs.2,040,167,427 for the year ended 30 June 2017 at note 17 to the financial statements is Kshs.824,881,620 for construction of roads. However, the audit verification revealed the following anomalies:

- i. Records availed for audit review indicated that County Executive of Mombasa maintains a register of contractors who have been clustered into four zones.

However, it was not clear the basis of identifying the firms that were awarded contracts from the register of firms in line with Section 103 (1) of the Public Procurement and Asset Disposal Act, 2015 which provides conditions for use of direct procurement;

- ii. The works were not branded and it was therefore difficult to confirm the ownership of the projects considering other government agencies including the defunct CDFs, KURA, KENHA, NYS or NGOs could have undertaken similar projects in the County.
- iii. Audit review of the department of Transport and Infrastructure's annual development plan revealed that the following thirty two (32) projects with a total cost of Kshs.555,505,479 were not included in the plan as shown below:

| No. | Project | Project Cost |
|-----|---|--------------|
| 1. | Installation of gully pots along Digo and Abdel Nasser roads | 15,739,387 |
| 2 | Storm water drain cleaning works at Wayani, refinery and Magongo | 7,386,500 |
| 3 | Construction of Jitoni road | 17,600,286 |
| 4 | Improvement to gravel of Kiembeni Nguu tatu road | 15,283,424 |
| 5 | Construction of Oleander access road to cabro | 15,306,940 |
| 6 | Improvement of Kilima and Ndovu road | 23,814,270 |
| 7 | Spots improvement of access road to JCC Church and a section of access road to sub-county commissioner's office | 21,196,275 |
| 8 | Closed culvert storm water drain along new Nyali and Ras Kisauni roads | 44,628,229 |
| 9 | Improvement to gravel standard of Mwembe, Bandari and access to Kisumu ndogo villages | 12,933,879 |
| 10 | Improvement of shelly beach | 16,299,790 |
| 11 | Connecting Kisumu road and Sauti Kenya road to cabro | 4,943,004 |
| 12 | Construction of Kitaruni – Maweni road to cabro | 62,949,563 |
| 13 | Reinstatement of section of Mtamboni road | 4,007,270 |
| 14 | Construction of kwabhuro – Mtopanga Estate | 41,950,694 |
| 15 | Improvement using gravel to Tumbili, Nyati,, Chui, | 11,990,501 |
| 16 | Spots improvement of works for Zimani, mji mpya and kambi roads | 9,352,145 |
| 17 | Storm water drain cleaning at chaani estate and magongo repooling roads | 5,639,639 |
| 18 | Construction of Mrima - Shelly beach road access | 34,724,345 |
| 19 | Improvement of Baobab to Pirates road to gravel standard | 9,426,256 |
| 20 | Construction of access road connecting msharama street and Sheikh Abdalla Farsi to cabro | 14,410,826 |
| 21 | Routine maintenance of Beira and Mozambique roads | 16,823,776 |
| 22 | Routine maintenance of St. Kelvin Catholic and Magongo repooling | 16,141,504 |

| | | |
|----|---|--------------------|
| 23 | Routine maintenance of Workshop Gideon Rimba Joinery road | 9,811,232 |
| 24 | Grading and spot improvement using gravel of access roads in Vescon and Kea Water estates | 10,173,081 |
| 25 | Walkway improvement to cabro standard along new nyali road | 5,468,568 |
| 26 | Morara, Mackawi, Muyaka, Gatundu and Salim Mwamugunga road | 9,467,150 |
| 27 | Storm water construction Leisure – Kidogo Basi | 14,794,665 |
| 28 | Construction of storm water at Bombululu catholic church | 16,279,800 |
| 29 | Construction of Mwagosi Bokole Access Road to Carbro Standard | 13,356,200 |
| 30 | Construction of Jomvu Makudani road to cabro standard | 17,603,300 |
| 31 | Construction of Chembani road | 17,016,675 |
| 32 | Construction of Majaoni Kashani Access road | 18,986,305 |
| | Total | 555,505,479 |

It was not clear why funds were allocated on projects which were not in the 2016-2017 annual development plan in violation of Section 126 (3) of the Public Finance Management Act 2012, which requires that county governments prepare annual development plans, which become the guiding development blue prints in any given financial year. The County Government was therefore in violation of the Law.

In the circumstances, the propriety and regularity of the expenditure on roads amounting to Kshs.824,881,620 for the period ended 30 June 2017 could not be confirmed.

13.5 Construction and Civil Works

Included in the acquisition of assets is construction of civil works balance of Kshs.449,755,699. Audit examination of payments transactions posted under construction and civil works revealed projects amounting to Kshs.116,902,025 for construction of roads as detailed below:

13.6 Purchase of Office Furniture and General Equipment

According to note 17 to the financial statements, acquisition of assets balance of Kshs.2,040,167,427 for the year ended 30 June 2017 include a figure of Kshs.117,557,274 in respect of purchase of office furniture and general equipment. However, the audit verification revealed the following anomalies:

13.6.1 Supply of IT Equipment to Sub-County Offices

Included in the figure of Kshs.117,557,274 for purchase of office furniture and general equipment for the year ended 30 June 2017 at note 17 to the financial statements is supply of IT equipment to sub county offices at a cost of Kshs.10,909,250. However, audit verification of the payment revealed that the procurement was done through request for quotations although the cost was above the set threshold of Kshs.2,000,000 in procurement regulations. In addition, there was no documentation

on how the equipment were distributed to the intended offices. It was not possible to confirm the existence of the equipment and therefore the propriety of expenditure of Kshs.10,909,250 could not be ascertained for the year ended 30 June 2017.

13.6.2 Procurement of Early Childhood Development Centres Equipment and Materials

Included in the figure of Kshs.117,557,274 for purchase of office furniture and general equipment for the year ended 30 June 2017 at note 17 to the financial statements is expenditure of Kshs.48,395,500 for supply of ECD equipment and materials. Records availed for audit indicate that during the period under audit, the department of Children procured various equipment and materials for distribution to ECDs. However, audit verifications revealed that the equipment were procured for all the eight ECDs although only two ECDs had been completed as at 30 June 2017.

Physical verification revealed that the equipment was lying idle as none of the ECD was operational. Public funds are going to waste at the expense of other priority needs of the residents.

In the circumstances, value for money from expenditure of Kshs.48,395,500 could not be ascertained for the year ended 30 June 2017.

13.7 Research, Studies, Project Preparation, Design & Supervision

Included in the balance of acquisition of assets of Kshs.2,040,167,427 for the year ended 30 June 2017 at note 17 to the financial statements is Kshs.175,112,002 for research, studies, project preparation, design and supervision. However, the audit verification of the expenditure revealed the following anomalies:

13.7.1 Encumbrances

Included in research, studies, project preparation, design and supervision figure of Kshs.175,112,002 for the year ended 30 June 2017 at note 17 to the financial statements is expenditure of Kshs.15,400,000 on encumbrances. Records availed for audit verifications revealed that a total of Kshs.15,400,000 was paid for land governance, capacity development, knowledge management, regional cooperation and support to land projects. However, payment schedules, the work plan, report on action from the activity was not availed for audit review. It was not possible to confirm the validity of the expenditure.

In the circumstances, the propriety and validity of expenditure Kshs.15,400,000 on research, studies, project preparation, design and supervision for the year ended 30 June 2018 could not be ascertained.

14.0 Pending Bills of the Financial Statements

According to annex 1 on summary of pending bills of Kshs.4,657,616,828 was outstanding pending bills as at 30 June 2017. The audit revealed the following anomalies:

14.1 Unremitted Statutory Deductions

Included in pending bills balance of Kshs.4,657,616,828 is a total of Kshs.3,166,903,998 in respect of statutory deductions not remitted and which include Pay As You Earn, VAT, Withholding taxes, NSSF and pension contributions. Information available indicates that during the period under audit, Kenya Revenue Authority deducted from the County Government's bank accounts a total of Kshs.748,182,324 for non-remittance of P.A.Y.E and Withholding taxes. Non-compliance with statutory requirements leads to heavy penalties which affects funds available for budgeted activities.

14.2 Over Commitment

According to the approved budget estimates, total commitments were Kshs.977,004,130 compared to pending bills of Kshs. 4,657,616,828 resulting to a variance of Kshs.3,680,612,698. This imply irregular commitment of expenditure outside the budgeted votes which casts doubt on ability of the County Executive to settle the pending bills. As a result, the management was in breach of law.

14.3 Pending Bills Register

According to annex 1 on summary of pending bills of Kshs.4,657,616,828 was outstanding pending bills as at 30 June 2017. However, audit verification revealed that the County Executive does not maintain a register of pending bills. It was therefore not possible to confirm the accuracy of pending bills in the absence of the register.

14.4 Payment of Pending bills

Statement of receipts and payments reflect a figure of Kshs.1,803,424,854 in respect of other payments for the year ended 30 June 2017. Included in other payments figure of Kshs.1,803,424,854 as detailed in note 20 to the financial statements is other expenses figure of Kshs.1,144,636,103 being payment of creditors. The expenditure increased by Kshs.90,870,449 or 7% compared to 2015-2016 figure of Kshs.1,053,765,654. In comparison to development expenditure, the payment of creditors is 41% of the development expenditure. This implies that if strategies are not put in place to control rising debts, the county may be unable to offer service to the public due to suppliers withholding their services.

15.0 Fixed Asset

As reported in the previous audit reports, Annex 4 to the financial statements is a summary of fixed asset register which reflects a balance of Kshs.12,386,004,912 as at 30 June 2017 compared to Kshs.10,936,215,000 as at 30 June 2016. However, the same figures reported in the audited 2015-2016 financial statements are still reflected and the additions of Kshs.2,040,167,427 during the year of audit have not been adjusted. In addition, the balances in the Annex 4 were not supported with a fixed asset register contrary to Section 136 (1) of the Public Finance Management (County Government) Regulations, 2015 which require each accounting officer to maintain a register of all assets under his control.

Further, as also previously reported, log books for vehicles costing Kshs.195,252,031 were not availed for audit verification. The management indicated that the logbooks

are still with the suppliers. It was not clear why the suppliers are holding the ownership documents.

Consequently, the accuracy, existence and completeness of the fixed assets balance of Kshs.12,386,004,912 as at 30 June 2017 could not be ascertained.

16.0 Handing Over of Assets and Liabilities from the Defunct Local Authorities

As reported in the previous year, Annex 4 to the financial statements reflects cumulative assets amounting to Kshs.12,386,004,912 (excluding assets acquired in the year 2016-2017). However, information available indicates that the defunct Transition Authority verified assets and liabilities of the defunct Municipal Council of Mombasa and issued a report in November 2014. However, no evidence was availed for audit to indicate that the assets and liabilities were handed over to the County Government. It was also observed that assets and liabilities of defunct Municipal Council of Mombasa were not included in these financial statements.

Consequently, the accuracy and completeness of the assets and liabilities of the County Executive presented in these financial statements could not be confirmed as at 30 June 2017.

17.0 Budget Controls and Performance

The County Executive of Mombasa had an approved budget estimates of Kshs.11,647,696,742 voted for the financial year 2016/2017 comprising of Kshs.3,989,859,969 for development and Kshs.7,657,836,773 for recurrent expenditure.

The following observations noted:

17.1 Budget Absorption

Out the total approved budget estimates of Kshs.11,647,696,742 for the financial year 2016-2017, a total of Kshs.9,502,485,060 had been spent as at 30 June 2017 resulting to under expenditure of Kshs.2,145,211,682 The budget absorption analysis is as detailed below:

| Item | Budgeted Allocation 2016/2017 | Actual 2016/2017 | Under Absorption | Absorption in % |
|--------------|--------------------------------------|-------------------------|-------------------------|------------------------|
| Development | 3,989,859,969 | 2,743,147,029 | 1,246,712,940 | 31 |
| Recurrent | 7,657,836,773 | 6,759,338,031 | 898,498,742 | 18 |
| Total | 11,647,696,742 | 9,502,485,060 | 2,145,211,682 | 18 |

The County Executive had a total under-expenditure of Kshs.2,145,211,682 or 18% of the budget. This implies that public funds were lying idle at the expense of other deserving areas. The underutilization of the funds may have impacted negatively on the delivery of goods and services to the citizens of Mombasa County or may be an

indication of over-budgeting and hence there is a need to re-evaluate the budgeting process to focus on more priority areas as guided by public participation in the budget making process.

17.2 Budget Absorption analysis - Development Vote

Records availed for audit review indicate that out of Kshs.3,989,859,969 under development vote, only Kshs. 2,743,147,029 or 69% had been spent resulting to a balance of Kshs. 1,246,712,940 unutilized as summarized below:

| Account | Budget Kshs | Actual Kshs | Under Utilisation Kshs | % |
|-----------------------|----------------------|----------------------|------------------------|-----------|
| Acquisition of Assets | 2,991,180,982 | 2,040,167,427 | 951,013,555 | 32 |
| Other Payments | 912,356,102 | 714,674,410 | 197,681,692 | 22 |
| TOTALS | 3,903,537,084 | 2,754,841,837 | 1,148,695,247 | 29 |

The above analysis indicates that the County Executive did not utilize a total of Kshs.1,246,712,940 or 31% voted for development.

The management has not explained the failure to utilize all the funds budgeted for development projects. This may be also an indication of poor project planning and monitoring which denies delivery of goods and services to the residents of Mombasa County. Alternatively, the management, may need to re-look at its budget making process with a view of allocating more funds to priority areas.

17.3 Budget Absorption Analysis - Recurrent Vote

Out of the recurrent budget of Kshs. 7,657,836,773 available for the year under review, Kshs.6,759,338,031 was spent resulting to under-expenditure of Kshs.1,484,096,392. The budget performance analysis is as follows:

| Item | Budget 2016-2017 as per Supplementary estimates (Kshs.) | Actuals 2016-2017 (Kshs.) | Under Expenditure (Kshs.) | Over Expenditure (Kshs.) | % of under utilisation |
|----------------------------------|---|---------------------------|---------------------------|--------------------------|------------------------|
| Compensation of Employees | 4,124,843,791 | 3,595,637,456 | 529,206,335 | | 13 |
| Use of Goods and Services | 1,909,596,341 | 1,281,247,192 | 628,349,149 | | 33 |
| Other Grants and Transfers | 479,141,032 | 372,988,064 | 106,152,968 | | 22 |
| Transfers Other Government Units | 652,217,202 | 455,563,943 | 196,653,259 | | 33 |
| Other Expenses | 492,038,407 | 1,077,636,057 | - | 585,597,650 | 119 |
| Total | 7,657,836,773 | 6,783,072,712 | 1,460,361,711 | 585,597,650 | |

In overall, the County Executive under spent by a total of Kshs.1,460,361,711 or 19% of the total budget.

The County overspent on other expenses by Kshs.585,597,650 or 119% and did not avail for audit the prior approval for the over expenditure which could be an indication of unauthorized reallocation of funds contrary to Section 154 of Public Finance Management Act, 2012.

In addition, the County Executive's expenditure on salaries of Kshs.3,595,637,456 is more than the total revenue collection of Kshs.3,166,240,961 contrary to Section 174 (a) of the Public Finance Management Act, 2012 which provides that the actual expenditure on the personnel shall not exceed a percentage of their allocation to be prescribed by the County Assembly. This implies that most of the County Executive's funds go into payment of salaries at the expense of development projects.

The management may have over budgeted on recurrent expenditure and which may need to re-think on the future budget making process to focus on areas which may require more funding.

17.4 Under Collection of Revenue

The statement of receipts and payments for the year ended 30 June 2017 reflects that the County Executive collected Kshs.3,166,240,961 from local sources compared to Kshs.3,002,077,786 collected in 2015/2016 financial year representing 6% rise in revenue collection. However, according to the 2016/2017 approved budget estimates, the County Executive expected to collect Kshs.5,223,025,116 from local sources which implies the County Executive had a deficit 61% of the targeted revenue.

Further, audit analysis revealed reduction of revenue on the following revenue sources as compared to revenue collected in 2015/2016 financial year shown below:

| Revenue Source | 2016/2017 (Kshs.) | 2015/2016 (Kshs.) | Reduction (Kshs.) | % Reduction |
|---------------------------|----------------------|----------------------|----------------------|----------------|
| Environment & conservancy | 58,244,269 | 94,268,300 | 36,024,031 | 40 |
| Other health & sanitation | 303,300,096 | 376,562,507 | 73,262,411 | 19 |
| Total | 361,544,365 | 470,830,807 | 109,286,442 | 23 |

Although the management has attributed the reduction to closure of health facilities during the doctors and nurses strike, this is an indication of possible revenue leakages, inefficient revenue collection systems or unrealistic targets contrary to Section (157) (2) of the Public Finance Management Act, 2012 which requires that the receiver of County Government revenue to ensure that the revenue for which the receiver is responsible is collected or recovered, and is accounted for.

The County Executive may not fully finance its budget activities which may affect service delivery to residents of Mombasa County.

17.5 Office of the Governor

The Governor was allocated Kshs. 245,808,728 as analyzed below:

| Budget Vote | Budget Amount (Kshs.) | Actual Expenditure (Kshs.) | Under-Absorption |
|---|------------------------------|-----------------------------------|-------------------------|
| Communication, Supplies and Services | 2,594,276 | 2,594,276 | - |
| Domestic Travel and Subsistence, and Other Transportation Costs | 35,100,000 | 25,472,236 | 9,627,764 |
| Foreign travel and Subsistence Allowance | 22,919,420 | 19,919,420 | 3,000,000 |
| Printing , Advertising and Information Supplies and Services | 7,889,140 | 5,182,128 | 2,707,012 |
| Rentals of Produced Assets | 5,968,060 | 5,968,060 | 0 |
| Training Expense (including capacity building) | 1,183,640 | 1,183,640 | 0 |
| Hospitality Supplies and Services | 41,404,960 | 29,335,007 | 12,069,953 |
| Insurance Costs | 895,949 | 0 | 895,949 |
| Fuel Oil and Lubricants | 5,462,534 | 5,462,534 | 0 |
| Other Operating Expenses | 11,233,502 | 11,233,502 | 0 |
| Office and General Supplies and Services | 2,611,850 | 2,611,850 | 0 |
| Routine Maintenance - Vehicles and Other Transport Equipment | 2,635,760 | 2,635,760 | 0 |
| Routine maintenance- Other Assets | 997,600 | 997,600 | 0 |
| Other Current Transfers, Grants and Subsidies | 3,500,000 | 1,987,500 | 1,512,500 |
| Construction of Buildings | 36,946,843 | 36,946,843 | 0 |
| Refurbishment of Buildings | 23,156,224 | 23,156,224 | 0 |
| Purchase of Household Furniture and Institutional Equipment | 428,950 | 428,950 | 0 |
| Purchase of Office Furniture and General Equipment | 39,805,020 | 39,805,020 | 0 |
| Purchase of Specialized Plant, Equipment and Machinery | 1,075,000 | 1,075,000 | 0 |
| Total | 245,808,728 | 215,995,550 | 29,813,178 |

The total budget underutilization was Kshs.29,813,178 representing 12% of the budget allocated to the office. The underutilization of the funds may have impacted negatively on the delivery of goods and services to the citizens of Mombasa.

18.0 Implementation of County Fiscal Objectives

According to the 2016-2017 County Fiscal Strategy Paper, the following were listed as county strategic priorities:

- i. Investing in quality and accessible health care
- ii. Youth, sports & gender empowerment

- iii. Provision of quality education
- iv. Water & transport infrastructure development
- v. Improved land services

However, audit review of the approved budget estimates and County Review Outlook Paper revealed the following anomalies:

18.1 Deviation from County Fiscal Objectives

Development budget allocation to priority departments revealed the following mismatch in funds allocation:

| No. | Department | 2016-17 Approved Estimates (Kshs.) | 2015-2016 Approved Estimates (Kshs.) | Change (Kshs.) | % Change | % Allocation for 2016/2017 |
|-----|---|---|---|--------------------|-------------|-------------------------------------|
| 1 | Finance and Economic Planning | 958,918,483 | 888,647,234 | 70,271,249 | 8% | 24% |
| 2 | Children (Care, Education, Environment) | 202,375,455 | 276,833,101 | (74,457,646) | -27% | 5% |
| 3 | Health Services | 131,869,596 | 359,152,675 | (227,283,079) | -63% | 3% |
| 4 | Water & Natural Resources | 54,167,968 | 48,272,912 | 5,895,056 | 12% | 1 % |
| 5 | Youth, Gender and Sports | 433,558,448 | 106,455,455 | 327,102,993 | 307% | 11% |
| 6 | Lands, Planning & Housing | 139,490,482 | 214,967,840 | (75,477,358) | -35% | 3% |
| 7 | Transport and infrastructure | 1,864,954,455 | 949,501,972 | 915,452,483 | 96% | 47% |
| | Total | 3,785,334,887 | 2,843,831,189 | 941,503,698 | | |

From the above analysis, the following observations were noted:

- a) Although Water and sanitation was among the key priority areas, the department's allocation for development was only 1% and it was not clear how the county expected to achieve its objective;
- b) Compared to the 2015/2016 development budget allocations, allocation to the departments of Children, Health Services, and Lands, Planning & Housing reduced by 27%, 63% and 35% respectively whereas allocation to the department of Trade, Energy and Industry a non-priority department, increased by 127%. This implies that county resources were allocated to non-priority areas at the expense of the set strategic goals contrary to Section 117 (3) on Public Finance Management Act, 2012 which provides that strategic priorities and policy goals in the County Fiscal Strategy Paper will guide the county government in preparing its budget for the coming financial year and over the medium term.

In addition, there was no evidence that the county government received approval from the County Assembly to deviate from the financial objectives as set in County Fiscal Strategy Paper in line with Section 108 of the Public Finance Management Act, 2012.

Consequently, contrary to Section 31 (f) of the Public Finance Management (County Government) Regulations, 2015, the budget estimates for year under audit, did not take into account fiscal priorities which could have contributed to the realization of the desired policy outcome.

18.2 Missed Development Goals

Audit review of the program based budgets of the key priority departments revealed that the following intended project activities were not implemented during the financial year in line with set strategic priorities as detailed below:

| No. | Department | Strategic Objective | Interventions not Implemented |
|-----|---------------------------|---|---|
| 1. | Health Services | Investing in quality and accessible healthcare services | <ul style="list-style-type: none"> ● Refurbishment of existing health facilities; ● Installation of solar panels and plumbing works at County referral facility |
| 2. | Youth, Gender and Sports | Youth, gender and sports empowerment | <ul style="list-style-type: none"> ● Improve ten social halls in the county; ● Establish a one stop shop for the youth (Tononoka Hall). |
| 3. | Water & Natural Resources | Provision of effective and efficient water and sewerage services through increased water supply, sanitation and sewerage coverage | <ul style="list-style-type: none"> ● Turnaround of Mombasa water company turn and water and sanitation services improvement project. ● Replace the dilapidated water pipes and expansion and lay of water pipes; ● Undertake solid waste management by making use of waste for economic growth |
| 4. | Lands and Housing | Improved land services | <ul style="list-style-type: none"> ● Finalize the preparation of Mombasa gate city master plan to guide future the urban planning ● Preparation of three satellite city plans ● Provision of affordable and quality housing units, refurbishment of county residential houses |
| 5. | Children | Provision of quality education | <ul style="list-style-type: none"> ● Recruitment of ECD assistants; ● Build 7 new ECDs; ● Set up 25 Maktaba Centres around the County to develop the talents in our Children & Youth |

Management has attributed the non-implementation to lack of funds, although budget allocation to the departments was as per the program based budget.

The County Government should ensure resources are allocated in line with set strategic priorities as outlined in the County Fiscal Strategy Paper. Any deviation must be approved by the County Assembly based on prevailing circumstances and such should be published and publicized in line with Section 108 of Public Finance Management Act, 2012.

This may have affected service delivery to the residents of Mombasa County.

18.3 Projects in Annual Development Plan not Implemented

Audit review of the 2016-2017 financial year Annual Development Plan of the County government of Mombasa against projects implemented revealed that the following projects earmarked for implementation were not undertaken as detailed below:

| No. Department of Finance and Economic Planning | | | |
|---|---|--|----------------------------|
| No. | Project | Performance Indicators | Expected time frame |
| 1 | ICT hub/incubator | Set up 1 Digital Centre incubator | July 2016 – June 2017 |
| 2 | Installation and establishment of data centre | Establish standard data centre (DC) | July - December 2016 |
| 3 | Improve Interconnection of county offices and stations | Connect internet through WAN to 10 more departments and Offices | July - December 2016 |
| No. Department of Water & Natural Resources | | | |
| 1 | Improvement of sanitation and hygiene. | Construction / rehabilitation of 30 No. of public toilets | October 16 – March 2017 |
| 2 | Increase of water supply coverage. | Purchase of 4 No. 16m ³ water bowsers | October to December 2016 |
| 3 | Increase water supply to Mombasa. | Drill, test pumped and equipped 30 No. boreholes | Jan – June 17 |
| 4 | Improvement of Management of human waste and waste water. | Purchase of 5No. 8m ³ Exhauster with pumping facilities (Honey Sucker). | October– December 16 |
| No. Department of Health Services | | | |
| 1 | Upgrading of high-volume dispensaries to health centers | Upgrade 9 dispensaries (Magongo, Bokole, Miritini, Shimo Annex, Kongowea, Utange and Bamburi) dispensaries to Health centres | July 2016- June 2018 |
| 2 | Construction of one maternity unit | Construction of a maternity unit at Portreitz Hospital Maternity | July 2016- June 2017 |
| 3 | Construction of perimeter wall | Construction of perimeter walls at the CPGH and 30 existing and new CG facilities | July 2016- June 2018 |
| 4 | Construction of mortuaries | Construction of 2 mortuaries | July 2016 - June 2018 |
| No. Department of Agriculture, Livestock & Fisheries | | | |
| 1 | Purchase of certified crop seed | 30 No. of multistory gardens, 5 coconut farms rehabilitated | By end of September 2016 |

| | | | |
|------------|---|--|----------------------------|
| 2 | Agricultural machinery and equipment | Purchase of agricultural machinery and equipment | By end of January 2017 |
| 3 | Construction of Agricultural Training Centre(ATC) | Construction of Agricultural Training Centre(ATC) | By end April 2017 |
| 4 | Slaughterhouses | Construction of slaughterhouses | By end of May |
| 5 | Milk coolers | Purchase of 3 milk coolers | By end of September 2016 |
| 6 | Dairy goat project | Purchase of 750 dairy goats | By end of October 2016 |
| 7 | Construction of sale yards | Construction of 2 sale yards constructed | By end of April 2017 |
| 8 | Fish markets landing sites | Construction of 1 fish market | By end of April 2017 |
| 9 | Cold rooms | Construction of 1 cold room | By end of April 2017 |
| No. | Department of Lands and Housing | | |
| 1 | Valuation roll | Finalization of the valuation Roll by the consultant | 2016/17 |
| 2 | County land policy | Preparation of County Land Policy | 2016/17 |
| 3 | Housing estate sewerage system | Rehabilitation of housing estate sewerage system | July 2015-March 2016 |
| No. | Department of Trade, Energy and Industry | | |
| 1 | Acquisition of garbage collection equipment | Purchase of 2 Bob-cat tractors and 6 tuktuk trailers for Kongowea market | 1 year |
| 2 | Upgraded of perimeter wall | Upgrade of perimeter wall at Kongowea market | 1 year |
| 3 | Market Offices | Rehabilitation of market offices at Kongowea market | 1 year |
| 4 | Installation of street lights | Purchase of 3 trucks for installation of street lights | 1 year |
| 5 | Acquisition of vehicles | Purchase of 2 double cabin pick up vehicles | |
| 6 | Modernization of barriers | Modernisation of Barriers (Miritini,Shanzu, Mwakirunge and Likoni) Weighbridge unit installed | 1 year |
| 7 | Fire hydrants | Construction of 5 fire hydrants constructed at Kongowea Wholesale Market | 1 year |
| 8 | Establishment of netball pitches | Construction of 3 No. net ball pitches at Maweni, Tononoka and Changamwe | 1 year |
| 9 | Establishment of Volleyball pitches | Construction of 3 No. volleyball pitches at Mikindani, Freretown and Kongowea | 1 year |
| 10 | Construction of a swimming | Swimming pool at Tononoka County Stadium | 1 year |
| 11 | Construction of new community centres | 1 community Centre per Ward | 1 year |
| No. | Department of Transport and Infrastructure | | |
| 1 | Office block at County Yard | Construction of office block at County Yard | September 2014 - June 2015 |

| | | | |
|---|-----------------------------|--|-----------------------------|
| 2 | survey equipment | Purchase of survey equipment | September 2015 - Feb, 2016 |
| 3 | Passenger ferry | Purchase of 1 passenger ferry | September 2015- March, 2016 |
| 4 | Water Bowser for roadwork's | Road maintenance work quality improved | September 2015- Feb 2016 |

Non-implementation of activities set in the annual development plan, brings into question the basis for preparation of the 2016-2017 program based budget as the budget could not be linked to the annual development plan in violation of Section 126 (3) of the Public Finance Management Act 2012, which requires that county governments prepare Annual Development plans, which become the guiding development blue prints in any given financial year.

As a result, the county government may not realize the set objectives in the County Integrated Development Plan (CIDP), the Second Medium Term Plan and the Vision 2030. This is an indication of improper planning. Further, the management may need to re-think on its budget making process with a view to focusing on more priority areas.

19.0 Project Implementation

19.1 Project Status

Project implementation status reports availed for audit reflected the following as at 30 June 2017:

| No. | PROJECT NAME | Contract Sum | Project Status/ Complete |
|-----|--|--------------|--------------------------|
| 1 | Shika Adabu maternity | 11,000,000 | 85% |
| 2 | Renovation of Tononoka Social hall | 12,033,050 | 90% |
| 3 | Bomu Changamwe Stadium | 85,075,195 | 80% |
| 4 | Storm water drainage and road improvement Bamburi – Kadzandani | 33,876,942 | 50% |
| 5 | Drainage construction / improvement at Ratna square | 23,056,399 | 50% |
| 6 | Drainage improvement at Makaburini-Kongowea | 24,910,542 | 50% |
| 7 | Construction of storm water at Bombululu catholic church | 16,279,800 | 50% |
| 8 | Construction of storm water in Leisure – Kidogo Basi | 14,794,665 | 50% |
| 9 | Construction of Jomo Kenyatta beach access road walkways parking | 29,760,127 | 51% |

| | | | |
|----|--|------------|-----|
| 10 | Construction of Kitaruni – Maweni road to Cabro | 62,949,563 | 54% |
| 11 | Construction of Kwabhulo road – Mtopanga Estate | 41,950,694 | 35% |
| 12 | Construction of Mrima – Shelly Beach access road | 34,724,345 | 70% |
| 13 | Construction of access road connecting mshamara and Sheikh Abdalla Farsi | 14,410,826 | 42% |
| 14 | Renovation and extension of Governor's office | 89,785,290 | 95% |
| 15 | Shika Adabu Hospital | 55,827,355 | 80% |
| 16 | Mtongwe Hospital | 56,391,421 | 90% |
| 17 | Marimani Hospital | 53,609,243 | 80% |
| 18 | Vikwatani Hospital | 54,031,377 | 72% |
| 19 | Improvement of County Stadium | 61,290,854 | 40% |
| 20 | Utange Elimu School | 29,250,664 | 93% |
| 21 | Dingirikani Elimu School | 27,190,278 | 93% |
| 22 | Kadzandani Elimu School | 30,528,874 | 80% |
| 23 | Buxton Elimu School | 24,063,554 | 89% |
| 24 | Kwa Jomvu Elimu School | 30,984,619 | 84% |
| 25 | Chaani Elimu School | 28,788,548 | 64% |
| 26 | Likoni Elimu School | 31,323,074 | 87% |
| 27 | Longo Elimu School | 28,711,661 | 69% |

Delayed completion of the project implies that the intended beneficiaries may take long to realize the value for money and the prolonged completion date may lead to cost escalations due to inflation. In addition, it is an indication of poor project management.

19.2 Project Inspection

Inspection in the month of March, 2017 of some eleven (11) of the sampled projects implemented during the period under audit revealed the following observation:

| No. | Project | Project Cost | Inspection Observations |
|-----|--|--------------|--|
| 1 | Construction of Jomo Kenyatta Beach Access road, walkways and parking area | 49,912,766 | <ul style="list-style-type: none"> The contractor was not on site although the walkways and parking had not been done No signage erected to identify project owner |

| | | | |
|----|---|--------------------|---|
| 2 | Construction of a section of Ras Kisauni road | 21,412,854 | <ul style="list-style-type: none"> • Road in use although the part of the walk-ways had not been done • No signage erected to identify project owner |
| 3 | Spot improvement of access to JCC church and a section of access road to sub-county commissioner's office | 21,196,275 | <ul style="list-style-type: none"> • On-going works on Sub-county commissioner's office to Malindi road. |
| 4 | Construction of access road to SDA church to cabro standard | 5,937,800 | <ul style="list-style-type: none"> • No signage erected to identify project owner • The road seem to have been extended to private property |
| 5 | Proposed drainage construction of Kongowea Makaburini Phase II | 49,821,085 | <ul style="list-style-type: none"> • Project incomplete • Culverts had not been laid on a section of the drainage • Mounts of excavated soils had not been removed |
| 6 | Construction of Utange ECD | 28,836,930 | <ul style="list-style-type: none"> • Project behind schedule • Window panes not fitted • No evidence of on-going work |
| 7 | Vikwatani sub-county hospital | 54,031,377 | <ul style="list-style-type: none"> • Project behind schedule • Contractor on site with walls painted |
| 8 | Construction of Kwabhuro - Mtopanga Estate Access road to cabro standard | 41,950,694 | <ul style="list-style-type: none"> • Project completed with no signage |
| 9 | Shikaadabu hospital | 55,827,355 | <ul style="list-style-type: none"> • Overgrown grass at the site with minimal work going on |
| 10 | Mtongwe hospital | 56,609,245 | <ul style="list-style-type: none"> • Contractor not on site, no work going on |
| 11 | Renovations and extension of Governor's office building | 106,691,659 | <ul style="list-style-type: none"> • Project was in use without evidence of handing over |
| | Total | 492,228,040 | |

The above observations are indications of weaknesses in project management which may affect service delivery to the residents of Mombasa County. The County Executive should put in place proper project monitoring systems to ensure projects are implemented as per specifications and within the set timelines. Further, all projects must have a sign-post indicating the name of the project, source of funds, contractors, supervisors and contract period to distinguish projects implemented by other government agencies.

19.3 Stalled Projects

Audit inspection on the same month of March, 2018 some of the sampled projects revealed that the following projects had stalled:

| No. | Project | Cost | Inspection Observations |
|-----|---|--------------------|--|
| 1 | Parking and open public space improvement (Mwabundu road) | 34,788,644 | Contractor and machinery not on site Heap of soil excavated not removed Mechanics have returned to the site |
| 3 | Supply, installation, testing and commissioning and ICT security solution | 93,559,999 | Although the project cost was paid in full in 2015-2016 to install and commission ICT security solution in 14 locations of the County government, the system was not operational in five locations; public health office, Mwembe Clinic, Ganjoni Health Centre, Kongowea Market and Likoni |
| | Total | 128,348,643 | |
| | | | |

The public may not get the benefits of the intended services from the incomplete projects. Further, public funds amounting to Kshs. 189,639,498 may go to waste if measures are not put in place to revive the projects and implementation fast tracked in the next financial year.

It may also be an indication of lack of public participation before a project is implemented which leads to lack of ownership of such projects contrary to Section 115. (1) of the County Government Act, 2012 which demands public participation in the county planning processes. In addition, most of the projects were not branded and it was therefore not possible to confirm whether the projects were funded by the County government or another government agency.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the County Executive's ability to continue to 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 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

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 of Kenya. 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 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 judgment 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 Executives 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 Executive ability to continue offering 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 Executive to cease to continue offering 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 of the entities or business activities to express an opinion on the financial statements.

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

01 August 2018