REPORT OF THE AUDITOR-GENERAL ON THE COUNTY EXECUTIVE OF MOMBASA FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of County Executive of Mombasa set out on pages 1 to 127, which comprise statement of assets and liabilities as at 30 June 2018, and the statement of receipts and payments, statement of cash flows and 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 effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of County Executive of Mombasa as at 30 June 2018 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and do not comply with the Public Finance Management Act, 2012 and the County Government Act, 2012.

Basis for Qualified Opinion

1.0 Variance between Financial Statements and Integrated Financial Management Information System (IFMIS) Figures

The figures in the financial statements for the year ended 30 June 2018 contained discrepancies amounting to Kshs.9,146,548,943 compared with IFMIS records as summarized below:

Description	Amounts as per Financial Statements Submitted (Kshs)	Amount as per IFMIS (Kshs)	Variance (Kshs)
Total Receipts	12,030,853,990	6,604,710,610	5,426,143,380
Total Payments	11,258,288,713	7,537,883,150	3,720,405,563
Total	**23,289,142,703**	**14,142,593,760**	**9,146,548,943**

It was not clear why the figures in IFMIS varied with the figures as presented in the financial statements for the year ended 30 June 2018 and the management did not avail a reconciliation.

Consequently, the financial statements for the year ended 30 June 2018 were not in agreement with IFMIS which is the accounting systems in use.

2.0 Unsupported Bank Balances

The statement of assets and liabilities as at 30 June 2018 reflects bank balance of Kshs.986,694,435 as detailed in note 21A to the financial statements. However, included in the bank balance of Kshs.986,694,435, is an amount of Kshs.167,856,174 being balances of eight (8) 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	Chase bank	Revolving fund	0
vi	Cooperative	LATF	21,486
vii	National Bank	Coast Provincial General Hospital	164,601,061
vii	KCB	Salary control account	1,064,900
	Total		**167,856,174**

In the foregoing, the accuracy and completeness of the bank balance amounting to Kshs.167,856,174 as at 30 June 2018 could not be confirmed.

3.0 Deposits and Retentions

The statement of assets and liabilities as at 30 June 2018 reflects a balance of Kshs.52,561,443 in respect of accounts payables – deposits and retentions. However, no records of outstanding deposits and retentions payable as at 30 June 2018 was availed for audit review.
In addition, audit verification of the Finance and Economic Planning department's payment details revealed that during the period under audit, a total of Kshs.94,698,212 was paid to various contractors as retentions for contracts completed in previous financial periods. However, accounts payables - retentions as at 30 June 2017 were Kshs.14,587,788, resulting to an over payment Kshs.80,110,424 and whose basis could not be determined.

In the circumstances, the propriety and accuracy of accounts payables – deposits and retentions balance of Kshs.52,561,443 as at 30 June 2018 could not be confirmed.

4.0 Exchequer Release

The statement of receipts and payments reflects Kshs.8,542,439,306 in respect of exchequer releases for the year ended 30 June 2018. The figure of Kshs.8,542,439,306 comprises of equitable share of Kshs.8,154,000,000 and conditional grant to Level 5 hospital of Kshs.388,439,306. However, audit verifications revealed that there was no evidence of separate books of accounts maintained for conditional grant as set out in County Allocation of Revenue bill, 2017.

Further, evidence that 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 as per County Allocation of Revenue bill, 2017 was not availed for audit.

In addition, records at the department of health indicate that only Kshs.92,232,869 was disbursed to Coast General Hospital resulting to undisbursed amount of Kshs.296,206,437. It was, therefore, not possible to determine whether the funds were utilized towards sustaining the activities of Coast General Hospital as set out by the grant conditions.

In the foregoing circumstances, the accuracy, completeness, regularity and value for money of exchequer releases amounting to Kshs.296,206,437 for the year ended 30 June 2018 could not be ascertained.

5.0 County Own Generated Receipts

5.1 Other Property Income – Rates

According to Note 9 to the financial statements, County own generated receipts of Kshs.3,168,434,397 for the year ended 30 June 2018 include other property income of Kshs.733,030,703 which 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 new valuation roll had been finalized. However, there was no evidence that the outstanding rates had been reconciled to reflect the correct balances.

Consequently, the accuracy and completeness of other property income of Kshs.733,030,703 for the year ended 30 June 2018 could not be confirmed.

5.2 Revenue Not Transferred to County Revenue Fund Account

The statement of receipts and payments reflects County own generated receipts of Kshs.3,168,434,397 for the year ended 30 June 2018. Audit verifications of transfers of revenue to County Revenue Fund Account revealed that only a total of Kshs.2,513,611,537 was transferred to County Revenue Account resulting to a balance of Kshs.654,822,860. 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.

In addition, out of the Kshs.654,822,860 not transferred to the County Revenue Fund Account, only Kshs.605,763,456 was explained as detailed below:

No.	Location	Amount (Kshs)
1	Co-operative bank collection account – balance as at 30 June 2018	1,102
2	KCB I Collection account– balance as at 30 June 2018	4,380,504

3	KCB II Collection account– balance as at 30 June 2018	32,341,495
4	KCB Main	3,319,893
5	KCB Deposit	4,145,042
6	NBK Collection account– balance as at 30 June 2018	24,796,845
7	Collection Commissions and bank charges	78,888,830
8	Collections from Health Facilities	428,598,264
9	Payroll deductions	29,291,481
	Total	**605,763,456**

Consequently, the County Executive was in breach of law.

5.3 Business Permits

Included in other county own generated receipts balance of Kshs.3,168,434,397 under Note 9 to the financial statements is revenue from business permits of Kshs.509,931,894 which includes revenues of Kshs.17,322,000 from liquor licensing which falls under the mandate of the Liquor Control Fund. Information available indicates that during the period under audit, liquor licenses were applied and paid via E-Citizen platform which is controlled by the County Treasury. However, there was no evidence that the funds were remitted to the Liquor Control Fund.

In addition, Liquor Control Fund's financial statement for the year 2017/2018 reflects a receivable of Kshs.17,322,000 from the County Treasury although the liability has not been reflected in these financial statements and it's not clear how it has been accounted for.

Consequently, the accuracy and regularity of business permits of Kshs.509,931,894 for the year ended 30 June 2018 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of County Executive of Mombasa in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my 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. Except for the matters described in the Basis for Qualified Opinion and Basis for Conclusions on Lawfulness and Effectiveness in Use of Public Resources sections of my report, I have determined that there are no key audit matters to communicate in my report.

Other Matter

1.0. Budget Controls and Performance

1.1 Budget Absorption

The County Executive of Mombasa had an approved budget estimates of Kshs.12,513,800,701 voted for the financial year 2017/2018 comprising of Kshs.3,754,140,210 for development and Kshs.8,759,660,491 for recurrent expenditure. The County Executive's actual expenditure amounted to Kshs.11,258,288,712, resulting to net under absorption of Kshs.1,255,511,989 or 10% of the voted amount as summarized below:

Item	Budgeted Allocation 2017/2018 (Kshs)	Actual 2017/2018 (Kshs)	Under Absorption (Kshs)	Absorption in %
Development	3,754,140,210	2,924,645,430	829,494,780	78
Recurrent	8,759,660,491	8,333,643,282	426,017,209	95
Total	**12,513,800,701**	**11,258,288,712**	**1,255,511,989**	90

The overall under absorption of the approved budget of Kshs.1,255,511,989 or 10% indicates that some development activities planned for the year were not undertaken. This may have had a negative impact on the delivery of goods and services to the residents of Mombasa County.

1.2 Budget Analysis

Out the total approved budget estimates of Kshs.12,513,800,701 for the financial year 2017-2018, a total of Kshs.11,258,288,712 had been spent as at 30 June 2018 resulting to under expenditure of Kshs.1,255,511,989. The budget absorption analysis is as detailed below:

Item	Budgeted Allocation 2017/2018 (Kshs)	Actual 2017/2018 (Kshs)	Under Absorption (Kshs)	Over Absorption (Kshs)	Absorption in %
Compensation of employees	4,946,126,815	4,594,693,318	351,433,497		7
Use of goods and services	2,334,924,999	2,084,498.590	250,426,409		11
Transfers to other government units	667,637,636	525,366,106	142,271,530		21
Other grants and transfers	382,340,176	369,929,840	12,410,336		3
Acquisition of assets	2,797,274,180	2,155,057,086	642,217,094		23
Other payments	1,385,496,895	1,528,743,773		143,245,878	10
Total	**12,513,800,701**	**11,258,288,712**	**1,398,757,866**	**143,245,878**	

The County Executive had an under-expenditure of Kshs.1,398,757,866 or 11% 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 residents 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.

1.3 Under Collection of Revenue

The statement of receipts and payments for the year ended 30 June 2018 indicate that the County Executive collected Kshs.3,168,434,397 from local sources compared to Kshs.3,166,240,961 collected in 2016/2017 financial year representing Kshs.2,193,436 or 0.07% rise in revenue collection. However, according to the 2017/2018 approved budget estimates, the County Executive expected to collect Kshs.3,500,000,000 from local sources which implies the County Executive had a deficit Kshs.331,565,603 or 9% of the targeted revenue.

Further, audit analysis revealed reduction of revenue on the following revenue sources as compared to revenue collected in 2016/2017 financial year shown below:

Revenue Source	2017/2018 (Kshs.)	2016/2017 (Kshs.)	Reduction (Kshs.)	Reduction %
Other property income	733,030,703	940,652,182	207,621,479	22%
Other health & sanitation	775,046,024	820,968,697	45,922,673	6%
Vehicle parking	471,907,695	513,941,197	42,033,502	8%
Total	**1,979,984,422**	**2,275,562,076**	**295,577,654**	**13%**

Although the management has attributed the reduction to electioneering period, this is an indication of possible revenue leakages, or inefficient revenue collection systems 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 be able to fully finance its budget activities which may affect delivery of goods and service to residents of Mombasa County.

1.4 Office of the Governor

The office of the Governor was allocated a total budget of Kshs.254,539,046 which comprise of Kshs.47,237,930 for development and Kshs.207,301,116 for recurrent. However, by the close of the financial year, total of Kshs.218,544,989 had been spent leaving Kshs.35,994,057 or 14% of the budget unutilized.

Below is analysis of the major vote heads:

Budget Vote	Budget Amount (Kshs.)	Actual Expenditure (Kshs.)	Under-Absorption
Communication, Supplies and Services	2,243,265	1,743,265	500,000
Domestic Travel and Subsistence, and Other Transportation Costs	29,441,600	22,209,750	7,231,850
Foreign travel and Subsistence Allowance	20,941,737	13,925,476	7,016,261

Printing , Advertising and Information Supplies and Services	15,300,000	2,942,900	12,357,100
Rentals of Produced Assets	6,860,000	660,000	6,200,000
Hospitality Supplies and Services	24,767,900	10,774,100	13,993,800
Insurance Costs	4,133,408	2,933,408	1,200,000
Fuel Oil and Lubricants	6,920,000	2,860,000	4,060,000
Other Operating Expenses	20,688,872	11,313,700	9,375,172
Office and General Supplies and Services	12,000,000	1,666,100	10,333,900
Purchase of Vehicles	15,000,000	0	15,000,000
Purchase of Office Furniture and General Equipment	18,000,000	1,736,100	16,263,900
Total	**176,296,782**	**72,764,799**	**103,531,983**

From the above analysis, all the Kshs.15,000,000 allocated for purchase of vehicles remained unspent by the close of the financial year. It was not clear why the funds were allocated to the office when it had no capacity to absorb. This is an indication of lack of prioritization in the budget making process whereby priority need to be given to areas with capacity to absorb the funds and with high positive impact on lives of the citizens of Mombasa County.

The underutilization of the funds may have impacted negatively on the delivery of goods and services to the residents of Mombasa County.

2.0 Implementation of County Fiscal Objectives

According to the 2017-2018 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. Investment in 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:

2.1 Deviation from County Fiscal Objectives

Development budget allocation to departments revealed the following allocation:

Departments	**Approved Estimates (Kshs.)**	**Allocation %**
County Executive	81,648,620	2
Public Service Board	20,925,803	1
Finance & Economic Planning	502,657,429	13
Energy, Environment & Waste Management	56,452,690	1
Education, Information Technology	343,414,890	9

Departments	Approved Estimates (Kshs.)	Allocation %
Health Services	531,581,774	14
Water, Sanitation & Natural Resources	352,650,000	9
Youth, Gender , Sports and Cultural Affairs	284,179,499	7
Trade, Tourism & Investment	131,171,827	3
Lands, Housing and Physical Planning	438,299,698	11
Transport & Infrastructure	691,205,663	18
Agriculture, Fisheries, Livestock and Co-operatives	252,023,161	6
Devolution & Public Service Administration	232,015,000	6
Total	**3,918,226,054**	

From the above analysis, the department of Finance and Economic Planning which is not one of the priority departments was allocated Kshs.502,657,429 being 13% of the total development budget whereas of Education, Information &Technology, Youth, Gender, Sports & Cultural Affairs and Lands, Housing & Physical Planning were allocated lesser proportion of 9%, 7% and 11% respectively. 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.

2.2 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	• Construction of 2 mortuaries in Likoni and Tudor Sub-county hospitals • Upgrading of 9 dispensaries to health centres
2.	Youth, Gender and Sports	Youth, gender and sports empowerment	• Improve ten social halls in the county;

No.	Department	Strategic Objective	Interventions not Implemented
			• 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	• Purchase of 2 bowsers • Laying of 3 km pipeline • Renovation and construction of 10 toilets
4.	Lands and Housing	Improved land services	• Three planned satellite cities -Mwakirunge Eco-City -Jomvu City -Shikaadabu Petro City • Purchase of land
5.	Children	Provision of quality education	• Hiring of ECD teachers and supervisors

Management has attributed the non-implementation to lack of funds, although budget allocation to the departments should have been 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.

2.3 Projects in Annual Development Plan Not Implemented

Audit review of the 2017-2018 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:

	Department of Finance and Economic Planning	
No.	**Project**	**Performance Indicators**
1	Internet Connection	5 sections connected to the internet
2	Installation of Customer Relations Management System (CRM)	Offsite backup and restore system

3	Purchase of Motor vehicles	2 vehicles purchased for quarterly audits and M&E field visits and reports
No.	**Department of Water & Natural Resources**	
1	Procurement of water bowser Supply water to households	2 Water Bowser purchased 400 households supplied with water
2	Construction/Rehabilitation/Expansion of water supply network.	3km pipeline laid.
3	Purchase of exhauster	No. 8m3 exhauster purchased
4	Renovation and Construction of Public Toilets	10 Renovated and 10 public toilets constructed
5	Procurement of Double Cabin P/UPS and Motor Cycles(Yamaha)	2 No. Double Cabin P/UPS. 5 No. Motor Cycles (Yamaha) purchased
No.	**Department of Health Services**	
1	Construction of incinerators	5 incinerators constructed (Likoni, Tudor & Portreitz sub-county Hosps, Mbuta MHC & Mrima HC)
2	Construction of one maternity unit	Construction of a maternity unit at Portreitz Hospital Maternity

No.	Project	Performance Indicators
3	Construction of perimeter wall	Construction of perimeter walls at the CPGH and 79 existing and new CG facilities
4	Construction of mortuaries	2 Mortuaries constructed in Likoni and Tudor sub-county Hospitals
5	Refurbishment of health facilities	40 health facilities refurbished
6	Equipping of health facilities; Construction of maternity wards	9 dispensaries upgraded to Health centres (Magongo, Bokole, Miritini, Shimo Annex, Kongowea, Utange and Bamburi dispensaries)
7	Installation of solar panels in Health Facilities	Level 5 facility fully energy efficient
No.	**Department of Agriculture, Livestock & Fisheries**	
1	Purchasing breeding animals	200 dairy goats and 3000 improved local poultry procured
2	Agricultural machinery and equipment	2 tractors purchased
3	Constructing slaughter houses	2 slaughterhouses constructed
4	Constructing cold storage facilities	2 cold storage of milk constructed
5	Constructing Poultry slaughter house	3 Poultry slaughter house constructed
6	Acquisition of modern fishing boats and gear for fishermen	4 Operational modern fishing boats
7	Construction of cold storage facilities	2 cold storage of milk constructed
No.	**Department of Lands and Housing**	
1	Implementation of Zoning plan Development Application and implementation regulations	No of zoning plan and regulation implementation reports

2	Plan Approvals Survey 200 subplots and retention R.I.M amendment 2,000 sub plots	200 subplots approved; 2,000 sub plots registered
3	Purchase of land	Land purchased
4	Inspection of Houses -preparation of BQs -tendering & awarding -handing over of sites to contractor -supervision -issuance of completion certificate	No of residential houses refurbished
No.	**Department of Transport and Infrastructure**	
1	Installation of traffic signal lights	4 junctions of traffic signal lights installed and maintained
2	Construction of access routes. Construction of jetties	6km of access routes constructed and improved. Construction of 4 number jetties.
3	Construction of marshalling yard and bus park	Marshalling yard and bus park constructed on 90 acres of land
	Purchase ferries to ferry passengers Mtongwe.	3 ferries purchased for reintroduction of Mtongwe ferry services
4	Water Bowser for roadwork's	One number water bowser truck purchased

Non-implementation of activities set in the annual development plan, brings into question the basis for preparation of the 2017-2018 program based budget as the budget could not be linked to the annual development plan which is 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.

3.0 Project Implementation

3.1 Project Status

Project implementation status reports of the following 46 sampled projects availed for audit reflected the following as at 30 June 2018:

No.	Project Activity	Contract Cost (Kshs.)	% of Work Done
1	Refurbishment of revenue offices in Shimanzi	10,634,740	16%
2	Periodic maintenance of VOK Loop & Kambi access road	44,385,729	30%
3	Periodic maintenance of exhibition & old nyali road	25,635,602	55%

No.	Project Activity	Contract Cost (Kshs.)	% of Work Done
4	Routine maintenance of Mshamara, St. Mtwapa Ave, Mkuyu, Mwijaka & Nairobi road	15,907,503	45%
5	Improvement Changamwe industrial area road	27,535,786	48%
6	Improvement to gravel standard of Mwakirunge-dumpsite Ndingirikani access road	17,188,301	59%
7	Improvement to gravel standard of access road to kiembeni AIC church & construction of cross culvert	15,687,089	41%
8	Periodic maintenance of Maungano Turkana and hospital roads	24,297,033	38%
9	Improvement of changamwe industrial area road	36,637,685	66%
10	Routine maintenance of Mwinyi Mpate Chai Voi Mwatate roads	15,078,856	44%
11	Construction to concrete standard & walkway improvement of section Anwaral	46,136,610	14%
12	Routine maintenance of Dedani Kimathi Baluch & Mwinyi roads	16,225,785	53%
13	Periodic maintenance of Maasai Buxton estate & Kafoca	31,733,975	46%
14	Routine maintenance of Taveta,Tewa,Taratibu St Ugenya Uyoma and Vihiga roads	16,366,549	46%
15	Improvement of Mtopanga estate road	37,378,538	23%
16	Construction of Bamburi Mtamboni access road to gravel standard	8,911,993	69%
17	Construction of Majaoni Kashani access road	56,541,110	7%
18	Construction of baobab road to gravel standard	11,347,684	68%
19	Construction to gravel standard of access road behind mamba village	21,181,442	41%
20	Construction of Sagaa b8 to Pride Inn road Nayli sub county	70,241,902	44%
21	Periodic maintenance of Meru factory & workshop roads	25,163,662	55%
22	Routine maintenance of Jomvu Khamis, Lions Club & Mwatate roads	15,468,417	51%
23	Improvement to gravel standard of access road to Bedzimba primary school	17,188,301	45%
24	Improvement to gravel standard of access road to estate opposite Utange petrol station	16,683,628	41%
25	Routine maintenance of Lungalunga Maalim Juma Maasai Mbuyuni and Msaada roads	17,539,066	47%
26	Kadzandani -Bamburi storm water drainage and road improvement	35,039,642	28%
27	Routine maintenance Mwinyi Aboud, Makadara, Kaunda, Light House & Kiambu roads	15,918,247	51%
28	Improvement to gravel standard of Kazandani access road former MCAs office KERRA Cabro & access to masters	17,578,489	44%
29	Construction of Jomo Kenyatta public beach access road walkways, parking areas to Cabro standard	29,760,128	25%
30	Development of sports facility at Uwanja Wa Mbuzi Kongowea Mombasa county	66,270,664	16%
31	Routine maintenance of lions club Pwani Manyimbo Mariaka Lane Marsabit Masa and Mbuyuni roads	17,322,109	48%

No.	Project Activity	Contract Cost (Kshs.)	% of Work Done
32	Improvement of Kilima and Rockwall cafe access road	12,563,732	41%
33	Routine maintenance of access road to navy staff quarters	15,043,746	46%
34	Periodic maintenance of coast house Mwamba avenue road	21,168,629	56%
35	Construction of access road connecting KRATI road & AAR hospital links road	26,771,890	58%
36	Periodic maintenance of second, third, fourth, fifth & sixth avenue	45,347,865	36%
37	Shika Adabu Hospital	55,827,355	55%
38	Mtongwe Hospital	56,391,421	80%
39	Marimani Hospital	53,609,243	85%
40	Vikwatani Hospital	54,031,377	70%
41	Improvement of County Stadium	61,290,854	40%
42	Dingirikani Elimu School	27,190,278	55%
43	Buxton Elimu School	24,063,554	92%
44	Chaani Elimu School	28,788,548	66%
45	Longo Elimu School	28,711,661	90%
46	Bomu Stadium	85,075,195	98%

Audit inspection and discussion with the management confirmed that the projects were on-going. However, the delay in their completion may imply that the intended beneficiaries may take long to realize the immediate value for money, and the prolonged completion date may lead to cost escalations due to inflation.

3.2 Project Inspection

Audit inspection undertaken in the month of November, 2018 for eighteen (18) of the sampled projects implemented during the period under audit revealed the following observation:

No.	Project	Project Cost (Kshs.)	Inspection Observations
1	Purchase of Garbage Trucks	103,008,000	• 5 trucks had dents caused by accidents and log books were withheld by supplier
2	Purchase of 28 high density fibre fishing boats	198,975,431	• The boats were at the supplier's yard in Malindi. Information available indicates that the department of Agriculture is awaiting for the passage of relevant laws to operate the project
3	Office furniture and fittings	14,876,330	• The furniture were not tagged making it impossible to confirm the ones delivered

No.	Project	Project Cost (Kshs.)	Inspection Observations
4	City Restoration Project Pedestrian Walkways Haile Sselassie	43,955,589	• Walkways in use although not complete • No signage erected to identify project owner
5	Improvement to Gravel Standard of Mwakirunge-Dumpsite Ndingirikani Access Road	10,126,866	• No signage erected to identify project owner • Road in use although the gravel is washed out.
6	Improvement to Gravel Standard of Access Road To Kiembeni AIC Church & Construction of Cross Culvert	6,374,884	• Road in use. • No signage erected to identify project owner
7	Construction to Concrete Standard & Walkway Improvement of Section Anwaral	6,368,825	• Walkways in Use although not complete • No signage erected to identify project owner
8	Grading & Spot Improvement Using Gravel of Kiembeni Estate Road	7,997,461	• Road in use. • No signage erected to identify project owner
9	Routine Maintenance of Haile Sellase Avenue Maungano St Turkana and Taita Roads	8,433,944	No signage erected to identify project owner
10	Improvement of Mtonpanga Estate Roads Kisauni	13,095,098	• Road in use although the part of the walk-ways had not been done
11	Construction of Majaoni Kashani Access Road	4,231,714	• No signage erected to identify project owner
12	Construction of Sagaa B8 to Pride Inn Road Nayli Sub County	31,031,947	• No signage erected to identify project owner
13	Improvement to Gravel of Access Road to Kiemebni Hill Roads Estate & to Ndirikani Primary School Roads	13,609,897	• No signage erected to identify project owner

No.	Project	Project Cost (Kshs.)	Inspection Observations
14	Repair of Various Roads to Cabro Standard Within Majengo Liberty Lotus Lane Jamvi La Wageni and Mama Ngina First	6,975,122	No signage erected to identify project owner
15	Mariakani, Mwagogo, Serani Primary Sch.Lane, Mvita, Mombasa Hosital Access ,David Kayanda & Kizingo Estate roads	7,032,053	Road in use but no signage
16	Improve of Umoja Road	5,394,757	• No signage erected to identify project owner
17	Mtopanga Access Roads (L32) to Cabro Block Pavement	23,850,070	• No signage erected to identify project owner • Road not complete
18	Mombasa CBD Restoration pedestrian walkway Moi Avenue,Nkurumah	56,547,975	• Walkways in Use although not complete • No signage erected to identify project owner

As the above projects 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.

3.3 Stalled Projects

Audit inspection undertaken in month of November, 2018 on some sampled projects revealed that the following projects had stalled:

No.	Project	Cost (Kshs.)	Inspection Observations
1	Parking and open public space improvement (Mwabundu Road)	34,788,644	Contractor had abandoned the site Mechanics have returned to the site
2.	Construction of 30 bed hospital at Vikwatani	54,031,377	The project commenced in 2014/2015 and was supposed to be completed in December 2015. By the

			time of audit, the contractor was not on site.
	Total	**88,820,021**	

The public may not get the benefits of the intended services from the incomplete projects. Further, public funds amounting to Kshs.150,110,875 may go to waste if measures are no put in place to revive the projects and implementation fast tracked in the next financial year.

This is, also, 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.

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

As reported in the previous year, Annex 5 to the financial statements reflects cumulative assets amounting to Kshs.14,541,061,999. According to the accompanying disclosure note, the balance of Kshs.14,541,061,999 include assets inherited by the County Government from the defunct Municipal Council. However, there is no evidence availed for audit to indicate that the assets and liabilities were handed over to the County Government.

In the circumstances, it is difficult to keep track of the public assets and liabilities which may lead to loss or misappropriations and legal suits.

2.0 Pending Bills

According to other important disclosures No.1 on page 33 to 105 of the financial statement, pending accounts payable balance was Kshs.4,024,141,648 as at 30 June 2018. The audit revealed the following anomalies:

2.1 Over Commitment

According to the approved budget estimates availed for audit, total over commitments were Kshs.435,600,124 as at 30 June 2018 giving rise to pending bills of Kshs.4,024,141,648 from Kshs.3,588,541,524. 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 Section 50 (2) of the Public Finance Management (County Government) Regulations, 2015 which states that expenditure commitments for goods and services shall be controlled against spending and procurement plans approved by the responsible Accounting Officer, based on allocations and allotments from approved budgets.

2.2 Pending Bills Register

Audit verification revealed that the County Executive does not maintain a register of pending bills.

This is Contrary to Section 51 (1) of the Public Finance Management (County Government) Regulations, 2015 which provides that each accounting officer shall cause records to be kept in such a form as shall clarify at any time, in respect of each of his or her votes. It was therefore not possible to confirm the accuracy of pending bills in the absence of the register.

3.0 Transfers to Other Government Units

The statement of receipts and payments reflects amount of Kshs.525,366,106 in respect of transfers to other government units for the year ended 30 June 2018. The transfers to other government units of Kshs.525,366,106 was in respect of transfers to County Assembly. However, according to the County Revenue Fund bank account statement, only Kshs.225,647,616 was transferred to the County Assembly leaving the balance of Kshs.299,718,490 which was explained as payments made by County Executive on behalf of the County Assembly including employee cost of Kshs.230,333,406. It was not clear why the County Executive continues to manage the County Assembly's payroll despite the County Assembly having a separate budget and requests its own funds directly from the Controller of Budgets. The practice may affect the spirit of separation of powers between the Executive and Assembly in line with Article 185 (3) of the Constitution of Kenya which states that a County Assembly, while respecting the principle of the separation of powers, may exercise oversight over the county executive committee and any other county executive organs.

The County Executive violated the spirit of separation of powers as stated in the Constitution. In the foregoing, the regularity of the transfers to other government units amount of Kshs.230,333,406 for the year ended 30 June 2018 could not be confirmed.

4.0 Defunct Local Authority's Bank Accounts

As reported in previous audits, a review of the supporting list of bank account balances of Kshs.986,694,435 for the year ended 30 June 2018 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.

5.0 Non-closure of Bank Accounts in Commercial Banks

As reported in the previous year 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.6,335,350 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 2018 (Kshs.)
I	Chase Bank	Revolving fund	0
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	4,145,042
Vii	Standard Bank	LASDAP	1,064,900
	Total		**6,335,250**

This is contrary to Section 82(1) (a) and (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.

6.0 Outstanding Imprest

It was observed that during the period under audit, imprest amounting to Kshs.25,763,603 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.

7.0 Irregular Procurement of Goods and Services

Included in use of goods and services of Kshs.2,084,498,590 for the year ended 30 June 2018 as detailed in note 12 to the financial statements are various procurement of goods and services totaling Kshs.8,384,760. 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/16/2017-2018	Provision of event organization	2,797,000
2	CGM/PRO/QTN/389/2016-2017	Repair and servicing of motor vehic	2,261,760
3	CGM/PRO/QTN/325B/2016-2017	Supply and delivery of tyres for vehicles	3,326,000
	Total		**8,384,760**

The procurement was contrary to Section 105 of the Public Procurement and Assets Disposal 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 argued that the decision was based on 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.

8.0 Acquisition of Assets

The statement of receipts and payments reflects a balance of Kshs.2,155,057,086 for the year ended 30 June 2018 in respect of acquisition of assets detailed in note 17 to the financial statement. Audit verifications revealed the following anomalies:

8.1 Construction of Buildings

8.1.1 Construction of Early Childhood Development (ECD) Schools

Included in the construction of buildings figure of Kshs.78,819,635 under note 17 to the financial statements is an expenditure of Kshs.17,719,694 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 was expected to have been completed in December 2015. However, as at the time of audit in the month of November, 2018, only four ECDs were completed while the remaining four were at various stages of completion, 147 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. Value for money has not been realized in the expenditure.

8.1.2 Construction of Hospitals

Included in construction of buildings figure of Kshs.78,819,635 under note 17 to the financial statements is an expenditure of Kshs.57,498,900 on construction of five sub-county hospitals. As reported in previous audits, 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 that project completion period had been further extended to February 2019 from the previous extension of March 2017 although as at the time of audit, November, 2018, none of the projects had been completed. The delayed completion affects service delivery to the intended beneficiaries. Delayed completion of the project implies denied service delivery to the public and value for money may not be achieved.

8.2 Construction of Roads

Included in the balance of acquisition of assets of Kshs.2,155,057,086 for the year ended 30 June 2018 is Kshs.1,055,925,342 for construction of roads as indicated under note 17 to the financial statements. However, the audit verification revealed that the County Executive of Mombasa maintains a register of contractors through framework contracting 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.

The management was therefore in breach of the laws.

8.3 Purchase of Office Furniture and General Equipment

According to note 17 to the financial statements, acquisition of assets balance of Kshs.2,155,057,086 for the year ended 30 June 2018 include a figure of Kshs.118,442,534 in respect of purchase of office furniture and general equipment. Included in the figure of Kshs.118,442,534 is supply and delivery of computers and IT equipment at a cost of Kshs.6,252,010. 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 as per procurement regulations. Although the management have argued that the order was for different items, the items were tendered as one bid.

The management was therefore in breach of the laws.

9.0 Unremitted Statutory Deductions

As reported in the year 2016/2017, included in pending bills balance of Kshs.4,024,141,648 is a total of Kshs.3,472,845,492 in respect of statutory deductions not remitted and which include Pay As You Earn, VAT, pension contributions and tax arrears of Kshs.433,000,000 which has been outstanding for a long period as detailed below:

No.	Deduction	Amount Kshs
1	Income Taxes	165,055,762
2	VAT	180,853,964
3	Pension Funds	2,691,628,416
4	NHIF	2,307,350
5	KRA Arrears	433,000,000
	Total	**3,472,845,492**

Non-compliance with statutory requirements leads to heavy penalties which may affects funds available for budgeted activities.

10.0 Fixed Asset Register

As reported in the previous audit reports, Annex 5 to the financial statements on page 125 is a summary of fixed asset register which reflects a balance of Kshs.14,541,061,999 as at 30 June 2018 compared to Kshs.12,386,004,913 as at 30 June 2017. However, the balances 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.

Consequently, management is in breach of the Law.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT SYSTEMS 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 Qualified Opinion and Basis for Conclusions on Lawfulness and Effectiveness in Use of Public Resources and Effectiveness of Internal Controls, Risk Management and Governance sections of my report, I confirm that nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

Internal Audit Function

Audit review of the internal audit department revealed that the department had no approved internal audit charter as provided for by the Institute of Internal Auditors. It was therefore not clear how the department's role and independence is guaranteed.

In addition, there was no evidence that the annual audit plan and audit reports had been submitted and approved by the internal audit committee.

In the circumstances, the internal audit department's role of giving reasonable assurance through the audit committee on the state of risk management, control and governance within the County Executive could not be confirmed in line with Section 153 (b) of the Public Finance Management Regulations (County Government), 2015 which states that internal auditors shall have a duty to give reasonable assurance through the audit committee on the state of risk management, control and governance within the organization.

Therefore, the County Executive's effectiveness of the internal controls and risk management is not assured in the absence of an audit committee.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. 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 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 such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the County Executive's ability to continue as sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the management either intends to liquidate the County Executive or to cease operations, or have no realistic alternative but to do so.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

Those charged with governance are responsible for overseeing the County Executive's financial reporting process.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229 (7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- 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 as a going concern or to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the County 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 the 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.

FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

18 February 2019