

REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF KILIFI FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of County Assembly of Kilifi set out on pages 1 to 27, which comprise the statement of financial assets and liabilities as at 30 June, 2020, and the statement of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts - recurrent and development combined for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of County Assembly of Kilifi as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012 and the County Governments Act, 2012.

Basis for Qualified Opinion

1. Variances Between Financial Statements and IFMIS

The statement of receipts and payments for the year ended 30 June, 2020 reflects total receipts and payments of Kshs.999,517,108 and Kshs.1,002,100,930, respectively. However, data extracted from the Integrated Financial Management System reflects total receipts of Kshs.890,886,608 and payments of Kshs.938,058,667 as shown below:

Component	Financial Statements Figures	IFMIS Payment Details	Variance
Receipts	Kshs.	Kshs.	Kshs.
Transfers from the County Treasury/Exchequer Releases	999,517,108	890,886,608	108,630,500
Payments			
Compensation of Employees	384,968,434	370,223,014	14,745,419
Payments	Kshs.	Kshs.	Kshs.
Use of Goods and Services	399,052,549	328,664,615	70,390,933
Social Security Benefits	19,670,914	17,989,637	1,681,276
Acquisition of Assets	166,349,315	189,181,401	(22,832,086)
Car loan mortgage	32,000,000	32,000,000	-

Although the Management attributed the variances to receipts and payments not posted in the Integrated Financial Management Systems, evidence that reconciliation was subsequently done has not been provided for audit verification.

Consequently, the completeness and accuracy of the financial statements for the year ended 30 June, 2020 could not be confirmed.

2. Basic Salaries of Temporary Employees

The statement of receipts and payments reflects an expenditure of Kshs.384,968,434 under compensation of employees which, as disclosed in Note 2 to the financial statements, includes an amount of Kshs.40,501,085 paid as basic wages for temporary employees. However, the amount of Kshs.40,501,085 was paid outside the Integrated Personnel Payroll Database (IPPD) and was not supported with contracts of employment between the employees and the County Assembly. Copies of academic and professional certificates of employees were also not provided.

Consequently, the accuracy and validity of the expenditure of Kshs.40,501,085 incurred on basic wages for temporary employees could not be confirmed.

3. Unsupported Expenditure

The statement of receipts and payments reflects payments totalling Kshs.399,052,549 under use of goods and services which, as disclosed in Note 3 to the financial statements, includes an amount of Kshs.178,846,115 relating to domestic travel and subsistence allowances. However, the expenditure was not supported with requisitions from Heads of Departments, imprest warrants, work tickets, boarding passes, bus tickets or taxi tickets and surrender vouchers.

Under the circumstances, the propriety of the expenditure of Kshs.178,846,115 incurred on domestic travel and subsistence could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the County Assembly of Kilifi Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

Other Matter

1. Budgetary Control and Performance

1.1 Receipts and Payments Budgets

The statement of comparison of budget and actual amounts - recurrent and development combined for the year ended 30 June, 2020 reflects final receipts budget and actual on comparable basis totalling Kshs.1,003,455,640 and Kshs.999,517,108 respectively, resulting to an under-funding of Kshs.3,938,532. Similarly, the County Assembly spent Kshs.1,002,100,930 against an approved budget of Kshs.976,877,640 resulting to an over-expenditure of Kshs.25,223,290 or 25.8% of the budget. The over-expenditure mainly occurred under use of goods and services where a total of Kshs.399,052,549 was spent against an approved budget of Kshs.282,115,851, resulting in an over-expenditure of Kshs.116,936,698 or 41% of the budget.

1.2 Late Exchequer Releases

During the year under review, the County Assembly budgeted for Exchequer releases of Kshs.1,003,455,640 but received a total of Kshs.999,517,108, out of which Exchequer releases totalling Kshs.55,752,000 were released by the County Treasury on 22 June, 2020. The late Exchequer releases of Kshs.55,752,000 contributed to the under absorption of budget of Kshs.25,223,290 or 17%.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

1. Acquisition of Assets

The statement of receipts and payments reflects an expenditure of Kshs.166,349,315 under acquisition of assets which, as disclosed in Note 6A to the financial statements, includes an amount of Kshs.149,434,973 in respect of construction of buildings (Assembly's Office Complex). As reported previously, the project was started in the year 2016/2017 at a contract sum of Kshs.508,549,884. However, due to poor performance of the contractor, the contract was terminated and the Management engaged another contractor at a contract sum of Kshs.622,233,278, resulting in an excess commitment of Kshs.113,683,394.

An audit inspection of the project in the month of December, 2020, revealed that the work was in progress and the estimated project completion date of 15 September, 2019 had expired.

Consequently, delayed completion and additional costs of the project may deny the residents of Kilifi value for money.

2. Outstanding Imprests

The statement of assets and liabilities reflects a balance of Kshs.4,170,582 under accounts receivables-outstanding imprests which, as disclosed in Note 10 to the financial statements, includes an amount of Kshs.3,688,582 relating to imprests. Records provided for audit review indicated that imprests amounting to Kshs.584,710 had not been surrendered on the due dates contrary to Section 152(3) of the Public Finance Management Act, 2012 which requires an officer to whom cash is advanced to account for the advance within seven days from the date of travel.

Under the circumstances, the County Assembly breached the law.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

Failure to Constitute an Audit Committee

As reported in the previous year, the County Assembly had not constituted an Audit Committee, contrary to Regulation 167 of the Public Finance Management (County Governments) Regulations, 2015 which requires each public entity to establish an Audit Committee.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standard requires that I plan and perform the audit to obtain assurance about whether processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and those Charged with Governance

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

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

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

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the County Assembly's financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities,

financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the County Assembly's ability to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause County Assembly to cease sustaining 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 Kilifi County Assembly to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

28 September, 2021