

REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF MOMBASA 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 Mombasa set out on pages 1 to 25, 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, development and combined for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the County Assembly of Mombasa 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 County Governments Act, 2012 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Inaccuracies in the Financial Statements

The statement of receipts and payments reflects various balances which differs significantly with the corresponding balances as reflected in the Integrated Financial Management Information System, IFMIS Report as summarized below:

Items	Note	Financial Statements (Kshs.)	Expenditure as Per IFMIS (Kshs.)	Variance (Kshs.)
Transfers from the County Treasury/Exchequer Releases	1	730,885,783	50,000,000	680,885,783
Compensation of Employees	4	352,513,037	202,703,203	149,809,834
Use of Goods and Services	5	297,197,259	185,264,693	111,932,566
Transfer to other Government Entities	7	50,046,057	0	50,046,057
Acquisition of Assets	10	29,257,959	27,470,690	1,787,269
Finance Costs	11	0	42,310,230	(42,310,230)

In absence of any reconciliation and explanation, the accuracy and completeness of balances reflected in the statement of receipts and expenditure for the year ended 30 June, 2020 could not be confirmed.

2. Transfers from the County Treasury / Exchequer Releases

As disclosed in Note 1 to the financial statements, the statement of receipts and payments for the year ended 30 June, 2020 shows transfers from the County Treasury/Exchequer releases of Kshs.730,885,783. However, a review of the financial statements reflect transfers to County Assembly of Kshs.661,397,987, resulting to an unreconciled and unexplained variance of Kshs.69,487,796.

In the circumstances, the accuracy and completeness of transfers from the County Treasury/Exchequer releases balance of Kshs.730,885,783 for the year ended 30 June, 2020 could not be confirmed.

3. Compensation of Employees

As disclosed in Note 4 to the financial statements, the statement of receipts and payments reflects compensation of employees' total expenditure of Kshs.352,513,037. Included in the amount are Kshs.14,325,386 and Kshs.39,551,931 in respect of salaries and staff payroll deductions respectively, all totalling Kshs.53,877,317 paid through Mombasa County Assembly imprest account.

However, payment vouchers in support of the expenditure were not provided for audit verification. Further, documentary evidence to support subsequent remittance of the payroll deductions of Kshs.39,551,931 were similarly not provided for audit review.

In the circumstances, the validity and completeness of the expenditure of Kshs.53,877,317 could not be confirmed.

4. Unsupported Expenditure – Use of goods and services

As disclosed in Note 5 to the financial statements, the statement of receipts and payments reflects a balance of Kshs.297,197,259 under use of goods and services. Included in the expenditure is an amount of Kshs.4,517,302 spent on training of Members of County Assembly in Dubai. However, procurement records showing how the venues were identified and contract awarded were not provided for audit verification.

Consequently, the regularity and value for money of the expenditure of Kshs.4,517,302 could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the County Assembly of Mombasa 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 are no key audit matters to report during the year under review.

Other Matter

1. Pending Bills

Note 5.10 - Other Disclosures to the financial statements reflects pending bills amounting to Kshs.90,251,208 as at 30 June, 2020. The bills relate to construction of civil works and supply of goods and services balance of Kshs.29,816,372, pending staff payables balance of Kshs.6,416,146 and unremitted statutory deductions (PAYE, NHIF, NITA Levy, Income Tax on Gratuity) and unremitted staff pension contributions (NSSF, LAPTRUST) amounting to Kshs.54,018,690.

Failure to settle bills during the year to which they relate distorts the financial statements for that year and adversely affects the provisions for the subsequent year to which they have to be charged.

2. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref: No. AG.4/16/3 Vol.1(9) dated 24 June, 2020.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

Accounts Receivables - Outstanding Imprests

Disclosed in Note 14 to the financial statements are outstanding imprests of Kshs.17,599,863 as at 30 June, 2020. Review of imprests register revealed that, though due, imprests amounting to Kshs.6,219,625 and Kshs.5,968,721 had been outstanding for over twelve and six months, respectively. This is contrary to Regulation 93(5) of the Public Finance Management (County Governments) Regulations, 2015 which requires a holder of a temporary imprest to account or surrender it within seven days after returning to duty station.

In addition, it was revealed that an amount of Kshs.14,735,121 relates to multiple imprests issued to twenty-four Members of County Assembly contrary to regulation 93(4)(b) of the Public Finance Management (County Governments) Regulations, 2015 which requires the Accounting Officer to ensure that the applicant has no outstanding imprest.

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 matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

Failure to Develop Risk Management Strategies and Operationalize Audit Committee

During the financial year ended 30 June, 2020, County Assembly did not have an operational Audit Committee to oversight over County Assembly operations. The Internal Audit Unit had no charter creating functions, roles and powers of the Unit. As such, the head of Internal Audit Unit reported administratively and functionally to the Clerk of County Assembly which casts doubt on the independence of the Unit.

Further, the County Executive did not develop a Risk Management Strategy to guide it to develop a system of risk management and internal control that builds robust business operations.

Consequently, the internal audit function cannot be guaranteed and may not be effective in the management of public resources.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether 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 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 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 County Assembly 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 doubts on 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 the County Assembly to cease to 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 the 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.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

08 December, 2021