## REPORT OF THE AUDITOR-GENERAL ON COUNTY EXECUTIVE 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 Executive of Kilifi set out on pages 1 to 55, which comprise the statement of assets and liabilities as at 30 June, 2020, and the statement of receipts and payments, statement of cash flows and summary statements of appropriation – 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 effect of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the County Executive of Kilifi as at 30 June, 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

### 1.0 County Own Generated Revenue

### 1.1 Revenue in Escrow Account

The statement of receipts and payments reflects county own generated receipts of Kshs.793,713,056 for the year ended 30 June, 2020. However, as disclosed in Note 7.9(6) on other important disclosures to the financial statements, the receipts excludes revenue amounting to Kshs.497,604,299, which had not been refunded to the County Revenue Fund (CRF) as at 30 June, 2020.

Further, the un-refunded revenue of Kshs.497,604,299 includes an amount of Kshs.445,467,561 held in two escrow bank accounts namely; County Government of Kilifi Cess Revenue Account - Kshs.350,396,502 and County Government of Kilifi Parking Fee Revenue Account - Kshs.95,071,059, which could not be refunded to the County Revenue Fund (CRF) due to a court order issued on 21 July, 2015. The case is still ongoing.

As disclosed in Note 7.9(6) to the financial statements, County Government own source revenue is recognized in the financial statements when it has been swiped to County Revenue Fund. Although the Management indicated that the funds held in the respective bank accounts, other than the escrow bank, were subsequently transferred to the County Revenue Fund (CRF), an amount of Kshs.7,045,033 held in four (4) bank accounts had not yet been transferred as at 23 February, 2021.

Under the circumstances, Management was in breach of the Law and the accuracy and completeness of County own generated receipts of Kshs.793,713,056 reflected in the financial statements for the year ended 30 June, 2020 could not be confirmed.

## 2. Loss of Cash

The statement of assets and liabilities reflects an accounts receivables balance of Kshs.46,744,100 which, as disclosed in Note 13 to the financial statements, includes an amount of Kshs.43,240,740 described as loss of cash. The cash was lost through online transfer from the recurrent bank account to fictitious individuals or firms under unclear circumstances as they had not been contracted by the County. As previously reported, Management has indicated that the matter was reported to the relevant Government Agencies and is under investigation. Although recoverability of the amount of Kshs.43,240,740 lost is doubtful, Management has continued to reflect it in the financial statements as part of accounts receivables.

Under the circumstances, the accuracy of account receivables balance of Kshs.46,744,100 as at 30 June, 2020 which is reflected in the financial statements could not be ascertained.

## 3. Unsupported Adjustments/Re-Statements

The comparative balances for various account items in the financial statements were re-stated as summarized below:

| No. | Component | Re-stated/Adjusted Balances for 2018/2019 as per Financial Statements for Year 2019/2020 (Kshs.) | Audited Balances as Per Financial Statements Year 2018/2019 (Kshs.) | Unsupported Adjustment (Kshs.) |
|---|---|---|---|---|
| 1 | Compensation of Employees | 3,796,135,337 | 3,796,124,183 | 11,154 |
| 2 | Use of Goods and Services | 2,466,604,997 | 2,466,324,997 | 280,000 |
| 3 | Bank Balances | 1,764,528,531 | 1,742,179,579 | 22,348,952 |
| 4 | Accounts Receivables-Unsurrendered Imprests | 47,978,775 | 50,260,932 | 2,282,157 |
| 5 | Fund Balances B/fwd | 615,188,409 | 617,179,413 | 1,991,004) |

However, reasons for the re-statements have not been provided under Note 16 on prior year adjustments. The supporting journal entries have also not been provided for audit review.

Under the circumstances, the accuracy and completeness of the re-stated balances in the financial statements for the year ended 30 June, 2020 could not be confirmed.

## 4. Differences Between Financial Statements and Integrated Financial Management Information System (IFMIS) Reports

The following balances reflected in the financial statements for the year ended 30 June, 2020 were at variance with Integrated Financial Management Information System (IFMIS) Report as summarized below:

| Item | Financial Statements Balances (Kshs.) | IFMIS Report Balances (Kshs.) | Variance (Kshs.) |
|---|---|---|---|
| **Receipts** | | | |
| Proceeds from Domestic and Foreign Grants | 503,487,122 | 759,245,602 | (255,758,480) |
| Exchequer Releases | 10,340,229,699 | 10,437,159,608 | (96,929,909) |
| Transfer from other Government Entities | 0 | 468,495,927 | (468,495,927) |
| Other Receipts | 793,713,056 | 581,077,249 | 212,635,807 |
| Returned CRF Issues | 128,653 | 123,653 | 5,000 |
| **Payments** | | | |
| Compensation of Employees | 3,943,716,879 | 3,781,497,748 | 162,219,131 |
| Use of Goods and Services | 2,326,975,119 | 1,771,272,187 | 555,702,932 |
| Other Grants and Transfers | 1,602,315,867 | 799,619,443 | 802,696,424 |
| Acquisition of Assets | 3,293,191,265 | 1,724,632,591 | 1,568,558,674 |

In the circumstances, the accuracy, validity and completeness of the balances as reflected in the financial statements could not be confirmed.

## 5. Variances Between Financial Statements and Supporting Schedules Balances

The following balances reflected in the financial statements were at variance with the balances reflected in the supporting schedules as summarized below:

| No. | Item | Note | Financial Statements Balances (Kshs.) | Supporting Schedules Balances (Kshs.) | Variance (Kshs.) |
|---|---|---|---|---|---|
| | **Assets** | | | | |
| | KCG - Main Revenue Account | 12A | 1,537,396 | 1,612,321 | (74,925) |
| | **Pending Accounts Payables** | | | | |
| 1 | Construction of Buildings | | 292,484,919 | 256,117,131 | 36,367,788 |
| 2 | Construction of Civil Works | | 159,720,548 | 147,571,981 | 12,148,567 |
| 3 | Supply of Goods | | 349,231,767 | 423,939,284 | (74,707,517) |
| 4 | Supply of Services | | 372,026,670 | 336,748,571 | 35,278,099 |
| | **Pending Staff Payables** | | | | |
| 1 | Senior Management | | 2,032,863.00 | 933,450.00 | 1,099,413 |
| 2 | Middle Management | | 19,408,452.00 | 24,118,266.00 | (4,709,814) |
| 3 | Others | | 6,719,200.00 | 340,500.00 | 6,378,700 |

In the circumstances, the accuracy and completeness of the of the balances for above account items as reflected in the financial statements could not be confirmed.

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

**Key Audit Matters**

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. I have determined that there are no key audit matters to communicate in my report.

**Other Matter**

**1. Budgetary Control and Performance**

The summary statement of appropriation - recurrent and development combined reflects an approved revenue budget of Kshs.15,034,621,948 against actual receipts of Kshs.12,702,833,741, resulting in an overall net under collection of Kshs.2,331,788,207 or 16%. Similarly, the statement reflects an approved expenditure budget of Kshs.15,034,621,948 against actual expenditure of Kshs.12,411,808,175, resulting to an overall under expenditure of Kshs.2,622,813,773 or 17%. The underfunding and underperformance constrained execution of planned activities and delivery of services to the residents of Kilifi County.

**2. Late Exchequer Releases**

During the year under review, the County Executive of Kilifi had budgeted for Exchequer releases of Kshs.10,444,500,000 but received a total of Kshs.9,546,273,000, out of which Exchequers releases totalling Kshs.1,315,036,361 were released in the month of June, 2020 as shown below:

| Date Funds received in the Bank Account | Amount Received (Kshs.) |
|---|---:|
| 24 June, 2020 | 940,005,000 |
| 15 June, 2020 | 32,343,750 |
| 30 June, 2020 | 12,075,000 |
| 30 June, 2020 | 30,000,000 |
| 4 June, 2020 | 29,431,649 |
| 4 June, 2020 | 25,969,864 |
| 30 June, 2020 | 236,411,098 |

| | |
|---|---|
| 30 June, 2020 | 8,800,000 |
| **Total** | **1,315,036,361** |

The late Exchequer releases of Kshs.1,315,036,361 may have contributed to the under absorption of budget by Kshs.2,622,813,773.

### 3.0 Pending Bills

As disclosed in Note 7.9.(1) on other important disclosures to the financial statements, the County Executive of Kilifi had pending bills amounting to Kshs.1,202,637,677 as at 30 June, 2020. However, audit carried out for the year under review revealed the following anomalies:

### 3.1 Un-Budgeted Pending Bills

Pending bills amounting to Kshs.133,572,547 were incurred on a vote whose budget had been exhausted and therefore the commitment of funds was done above the approved budget. This was done contrary to Section 53(8) of the Public Procurement and Asset Disposal Act, 2015, which states that an Accounting Officer should not commence any procurement proceeding until satisfied that sufficient funds to meet the obligations of the resulting contract are reflected in its approved budget estimates.

### 3.2 Long Outstanding Pending Bills

The pending bills includes an amount of Kshs.487,760,842 incurred on goods, services, civil works and buildings which had been outstanding for more than one year as summarized below:

| No. | Item | Amount (Kshs.) |
|---|---|---|
| 1 | Construction of Buildings | 104,681,636 |
| 2 | Construction of Civil Works | 9,815,846 |
| 3 | Supply of Goods | 231,689,848 |
| 4 | Supply of Services | 141,573,513 |
| | **Total** | **487,760,842** |

### 3.3 Ministry of Health Long Outstanding County Debts

Records from the Ministry of Health indicate that County Government of Kilifi has unpaid debts owed to the Ministry totalling Kshs.157,834,205 which have been outstanding since 2014. However, the Management has not explained the reasons for failure to settle these long outstanding debts.

Payment of pending bills forms a first charge of the budget as required by The National Treasury circulars and Section 74(4) of the Public Finance Management Act, 2012 which states that an Accounting Officer engages in improper conduct in relation to a national government entity if the officer fails, without reasonable excuse, to pay eligible and approved bills promptly in circumstances where funds are provided for in the budget. Management had, therefore, not prioritized the settlement of the long outstanding pending bills as required.

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 of Conclusion**

**1. Non-Remittance of Payroll Deductions**

During the year under review, Management made deductions from the payroll amounting to Kshs.27,061,998. However, no explanation has been provided on why the amounts remained un-remitted to the relevant authorities against the requirements of Section 19(4) of the Employment Act, 2007.

The Management was in breach of the law, to this extent.

**2. Irregular Payroll Deductions**

Examination of the payroll for the year under review revealed that net pay for twenty-three (23) employees totalling to Kshs.2,561,123 was less than a third of their corresponding basic pay of Kshs.10,659,414. This was contrary to Section 19(3) of the Employment Act, 2007 which states that the total amount of deduction of the wages of an employee should not exceed two thirds of such wages.

**3. Lack of Training Needs Assessment Report and Plan**

The statement of receipts and payments reflects an expenditure of Kshs.2,326,975,119 under use of goods and services which, as disclosed in Note 6 to the financial statements, includes an amount of Kshs.43,512,093 relating to training expenses. However, a training needs assessment to identify skills gap, basis for identification and selection of officers trained and the annual training plan was not provided for audit review.

**4. Lack of Performance Security Bonds**

During the year under review, the Management engaged various contractors to implement some projects and paid a total of Kshs.12,514,104 as summarized below:

| Date | Payment Voucher Number | Description | Department | Amount (Kshs.) |
|---|---|---|---|---|
| 30/06/2020 | 94379 | Maintenance of Buildings and Stations- Non -Residential | County Attorney | 5,960,783 |
| 27/01/2020 | 88250 | Maintenance of Civil Works | Roads | 3,395,093 |
| 31/01/2020 | 89017 | Maintenance of Buildings and Stations -- Non-Residential | County attorney | 3,158,228. |
| **Total** | | | | **12,514,104** |

However, the performance security bonds for these projects were not provided for audit review. Consequently, it was not possible to confirm whether the implementation of these projects was guaranteed in accordance with the law.

### 5. Outstanding Impressts

The statement of assets and liabilities reflects an accounts receivables balance of Kshs.46,744,100 which, as disclosed in Note 13 to the financial statements, includes an amount of Kshs.3,503,360 relating to outstanding imprests. The outstanding imprests includes an amount of Kshs.750,391 which has been outstanding for more than two (2) years. This is contrary to Regulation 93(5) of the Public Finance Management (County Government) Regulations, 2015 which requires imprests to be surrendered within 7 working days after the holder returns to duty station.

Management explained that the amount relates to imprests held by officers who had transferred services without full clearance from the County and that the new employers have been requested in writing to initiate the process of recovery. However, there is no evidence that the requests have been acted on.

### 6. Irregular Transfer of Facility Improvement Fund Revenue to County Revenue Fund

During the year under review, Kilifi County Government collected hospital fees and other charges amounting to Kshs.179,400,631. However, this amount was transferred to the County Revenue Fund, contrary to Section 3(2) of Kilifi County Health Services Improvement Fund, 2016 which states that there shall be paid into the Health Services Improvement Fund monies as appropriated by the County Treasury; grants or donations; monies received as user charges; and income generated from the proceeds of the services.' No explanation was provided transferring the amount to the County Revenue Fund.

## 7.0 Other Grants and Payments

As disclosed in Note 8 to the financial statements, the statement of receipts and payments reflects an expenditure of Kshs.1,602,315,867 under other grants and payments. However, the following irregularities were noted:

## 7.1 Cash for the Elderly

During the year under review, Management transferred a total of Kshs.29,000,000 to a commercial bank account used to disburse funds to the elderly. However, as at the time of audit in November, 2020 the amount had not been spent or paid back to the County Revenue Fund. This is contrary to Public Finance Management Act, 2012, Section 136(2) which states that, ‘if at the end of a financial year, a county government entity is holding appropriated money that was withdrawn from the County Exchequer Account but has not been spent, it shall repay the unspent money to the County Exchequer Account and prepare a refund statement which shall be forwarded to the Controller of Budget.’

## 7.2 Donations for School Fees

Included under other grants and payments are other current transfers, grants and subsidies of Kshs.483,984,425, out of which Kshs.1,458,500 is in respect of donations for school fees. However, the County Government had earlier established Kilifi County Ward Scholarship Fund which is allocated Kshs.350 million every year for school fees. Management has not provided explanations on why the school fees donations were not credited to the bank account of the Fund.

## 8. Expenditure not Authorized by the Controller of Budget

Analysis of County Divisions expenditure revealed that some County Divisions exceeded the budgets approved by the Controller of Budget as summarized below:

i. Twelve (12) out of twenty-four (24) divisions over spent on recurrent expenditure above Controller of Budget approval by Kshs.251.6 million.

ii. Three (3) out of twenty-four (24) divisions spent above the Controller of Budget approval by Kshs.200 million on development expenditure.

iii. Nine (9) out of twenty-four (24) divisions exceeded the budget ceilings set by the Controller of Budget by Kshs.389.4 million.

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, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

## Basis for Conclusion

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 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.

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

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

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

Those charged with governance are responsible for overseeing the County Executive of Kilifi 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 manner, 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 noncompliance. 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 County Executive of Kilifi's 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 County Executive's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause County Executive of Kilifi to cease to continue 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 Executive of Kilifi 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**
**<u>AUDITOR-GENERAL</u>**

**Nairobi**

**28 September, 2021**