REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STAMENTS OF COUNTY GOVERNMENT OF KILIFI

FOR THE YEAR ENDED 30 JUNE 2015

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OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON COUNTY GOVERNMENT OF KILIFI FOR THE YEAR ENDED 30 JUNE 2015

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of County Government of Kilifi set out on pages 7 to 24, which comprise the statement of assets and liabilities as at 30 June 2015, and the statement of receipts and payments, statement of cash flows, summary statement of appropriation: recurrent and development combined and a summary statement of provisionings 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 8 of the Public Audit Act, 2003.

Management's Responsibility for the Financial Statements

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

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 4 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with Section 9 of Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution. The audit was conducted in accordance with International Standards on Supreme Audit Institutions (ISSAIs). Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the

purpose of expressing an opinion on the effectiveness of the County Government's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, I am not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

1. Inaccuracies in the Statement of Receipts and Payments

The financial statements presented for audit review contained the following anomalies;

1.1. The statement of receipts and payments for the year ended 30 June 2015 reflects an amount of Kshs.7,322,352,126 as the total payments while the ledgers availed for audit review indicated an amount of Kshs.7,598,281,107.70, resulting to unexplained nor reconciled variance of Kshs.275,928,981.70.

1.2. The statement of receipts and payments for the year ended 30 June 2015 reflects an amount of Kshs.7,322,352,126 as the total payments while analysis of vote book revealed a total expenditure of Kshs.7,562,254,532, resulting again to unexplained nor reconciled variance of Kshs.239,902,406.

In the circumstances, the accuracy, validity and completeness of the County Government's statement of receipts and payments for the year ended 30 June 2015 could not be confirmed.

2. Prior Year Adjustment

Included in the statement of assets and liabilities is a prior year adjustments balance of Kshs.56,600,283, and whose supporting schedules, analysis and explanations were not availed for audit review.

Consequently, the accuracy and validity of the prior year adjustments balance of Kshs.56,600,283 as at 30 June 2015 could not be confirmed.

3. Bank Balances

3.1. Unsupported Adjustment – Kshs.13,198,103

The statement of assets and liabilities as at 30 June 2015 reflect cash at bank amounting to Kshs.1,902,360,621. However, the supporting schedules availed for audit review reflected an amount of Kshs.1,915,558,724 resulting to a variance of Kshs.13,198,103. Although the management explained that the variance reflected an adjustment, the supporting journals availed for review were neither authorized, serially numbered and lacked details on the basis for these adjustments.

3.2. Bank Balance

The statement of assets and liabilities reflect bank balances amount of Kshs.1,902,360,621 as at 30 June 2015. However the schedules availed for audit review reflected a figure of Kshs.1,642,631,110 resulting to unexplained nor reconciled variance of kshs.259,729,511.

Further information available indicated that the County Government of Kilifi operated ninety (90) bank accounts. However, the management did not avail for audit verification cashbooks, bank reconciliation statements, bank statements and bank confirmation certificates for 70 bank accounts.

3.3. Payments to Personal Accounts

Audit review of the cashbooks revealed that payments amounting to Kshs.23,494,600 were made to personal bank accounts for three individuals during the year under review. The management did not explain or provide documents regarding these payments.

3.4 Defunct Local Authority Bank Accounts

Included in the bank balance of Kshs.1,902,360,621 as at 30 June 2015 is an amount of Kshs.770,898 being a bank balance from the defunct local authority. However, this is contrary to National Treasury Circular No.14 which directed all the Accounting Officers of the County Government to close all bank accounts from the defunct local authorities. Therefore, the management is in breach of National treasury directive.

In view of the above, the validity, accuracy and completeness of the bank balances amounting to Kshs.1,902,360,621 as at 30 June 2015 could not be confirmed.

4. Cash Balance

Included in the statement of assets and liabilities as at 30 June 2015 is cash balance of Kshs.793,983. However, a review of the cashbook availed for audit indicated that the recurrent account cashbook had a negative cash balance of Kshs.617,528.40, resulting to unexplained nor reconciled variance of Kshs.1,411,511.40.

Consequently, the validity and accuracy of cash balance of Kshs.793,983 as at 30 June 2015 could not be confirmed.

5. Outstanding Imprest

The statement of assets as at 30 June 2015 reflects outstanding imprest balance of Kshs.96,850,068. Analysis of the imprest documents availed for audit revealed that imprest surrendered during the year amounting to Kshs.38,931,489.95 was not included in the vote book as part of the expenditure for the various votes.

Further, the imprest balance of Kshs.96,850,068 as at 30 June 2015 is at variance with the supporting schedules balance of Kshs.83,861,764.95, resulting to unexplained nor reconciled difference of Kshs.12,988,303.05. Further, the imprest balance of Kshs.96,850,068 was arrived at after an adjustment of Kshs.251,985,848. However, the supporting journals for the adjustment availed for audit were not authorized, serially numbered and contained no details as to the nature and content of the adjustment.

Consequently, the accuracy and completeness of outstanding imprest balance of Kshs.96,850,068 as at 30 June 2015 could not be confirmed.

6. Compensation of Employees

The statements of receipts and payments reflected an amount of Kshs.2,016,107,199 in respect of compensation of employees for the year under review. However, records availed for audit review indicated gross earnings paid to employees in the payroll amounted to Kshs.1,887,605,755 resulting to unexplained or reconciled variance of Kshs.128,501,444.

Consequently, the accuracy and completeness of compensation of employees' figure of Kshs.2,016,107,199 for the year ended 30 June 2015 could not be confirmed.

7. Use of Goods and Services

The statement of receipts and payments for the year ended 30 June 2015 reflects an amount of Kshs.2,046,168,639 in respect to use of goods and services. The following were observed;

7.1. Unsupported Expenditure

Included in the use of goods and services of Kshs.2,046,168,639 are payment vouchers amounting to Kshs.500,048,139.25 for various items and which were not availed for audit review as detailed below:

	Item	Unsupported Amount Kshs.
1	Utilities, supplies and services	140,790,925.55
2	Communication, supplies and services	4,511,723.00
3	Printing, advertising and information supplies & services	8,709,856.00
4	Rentals of produced assets	27,570,847.00
5	Training expenses	17,779,623.00
6	Insurance costs	10,738,633.40
7	Specialized materials and services	84,427,808.35
8	Office and general supplies and services	42,021,218.00
9	Other operating expenses	66,270,793.00
10	Routine maintenance – vehicles and other transport equipment	7,871,456.00
11	Routine maintenance – other assets	50,976,413.95

12	DANIDA	5,670,000
13	Other creditor	3,030,642.00
14	Purchase of beddings and linen	29,678,300
	Total	**500,048,139.25**

Consequently, the propriety of the unsupported expenditure of kshs.500,048,139.25 on use of goods and services could not be ascertained for the year ended 30 June 2015.

7.2. Hospitality Supplies and Services

Included in the use of goods and services is an amount of Kshs.149,679,316 in respect to hospitality supplies and services. Review of the payments documents availed for audit indicated that eight (8) suppliers for a value of Kshs.5,459,918 were contracted although not included in the pre-qualified list for accommodation and catering services. This is contrary to Public Procurement and Disposal Regulations, 2006 Section 59 (2) which states that for the purpose of determining the suppliers to be given a request for quotations, a procuring entity shall prepare a list of qualified suppliers and invite tenders from only the suppliers who have been pre-qualified under this regulation. Therefore the management was in breach of the law.

7.3. Specialized Materials and Services

Included in the use of goods and services is an amount of Kshs.307,179,212 in respect to specialized material and services. Include in this is an amount of Kshs.11,428,930 for procurement of staff uniforms and ceremonial dress for inspectorate. However, the tender was awarded to a different supplier other than any of the 11 suppliers approved by the tender committee to be invited to bid. It was not clear how the winning supplier participated in the process without the approval of the tender committee. In addition, included in the specialized material and services is a procurement of bed linen at Kshs.29,678,300. The items were procured through restricted tendering where five (5) suppliers submitted bids. However, the actual tenders were not availed for audit review.

Consequently, the propriety of the expenditure of Kshs.41,107,230 on staff uniforms, ceremonial dress and bed linen for the year ended 30 June 2015 could not be ascertained.

7.4. Distribution of Goods

Included in the use of goods and services are specialized materials purchased in bulk during the year under review amounting to Kshs.46,213,300. However no records were availed for audit verification on how the items were supplied to users/ beneficiaries. Further, no user requisitions were availed for audit verification.

Consequently, propriety of the specialized material amounting to Kshs.46,213,300 for the year ended 30 June 2015 could not be confirmed.

8. Grants to Kilifi County Women Society

Included in the statement of receipts and payments for the year ended 30 June 2015 is an amount of Kshs.540,439,883 in respect of other grants and transfers. Included in this amount are various grants to Kilifi County Women Society amounting to Kshs.7,000,000 of which no supporting documents were availed for audit review.

Consequently, the validity and propriety of grants to Kilifi County Women Society amounting to Kshs.7,000,000 for the year ended 30 June 2015 could not be confirmed.

9. Acquisitions of Assets

9.1 Unsupported Payments

Included in the statement of receipts and payment for the year ended 30 June 2015 is an amount of Kshs.2,679,940,076 in respect of acquisition of assets. However, included in the acquisition of assets are payment amounting to Kshs.573,995,098 and whose payments vouchers were not availed for audit verification as detailed below:

Item	Amount not supported Kshs
Construction of Buildings	116,806,082
Refurbishment of Buildings	120,758,736
Overhaul and Other Infrastructure and Civil Works	44,271,983
Purchase of Specialized Plant, Equipment and Machinery	285,635,940
Rehabilitation and Renovation of Plant And Machinery	6,522,357
Total	**573,995,098**

Consequently, the accuracy, completeness and propriety of acquisition of assets of Kshs.573,995,098 for the year ended 30 June 2015 could not be confirmed.

9.2 Omitted Expenditure on Acquisition of Assets

Information available indicated that payment vouchers amounting to Kshs.367,926,945 paid on account of acquisition of various assets were omitted in these financial statement as detailed below;

Item	Payments not Disclosed
Purchase of Vehicles and Other Transport Equipment	76,506,567
Purchase of Office Furniture and General Equipment	52,899,000
Purchase of Specialized Plant, Equipment and Machinery	238,521,378
Total	**367,926,945**

Consequently, the validity, accuracy and completeness of acquisition of assets of Kshs.2,679,940,076 for the year ended 30 June 2015 could not be confirmed.

9.3 Purchase of Ambulances

Included in the acquisition of assets is a purchase of ten (10) ambulances at a total cost of Kshs.88,000,000 from M/s Pharmaken Ltd at a total cost of Kshs.88,000,000. However, physical verification revealed that three out of the above motor vehicles were actual Toyota double cabins and not the required ambulances.

In the circumstances, it is not clear if the County Government obtained value for money on acquisition of ambulances amounting to Kshs.88,000,000 for the year ended 30 June 2015.

9.4 Purchase of Tractors

Included in the acquisition of assets is a purchase of 13 tractors and 13 ploughs at a cost of Kshs.54,470,000 from M/s Biomax Africa. However, it was noted that although the LPO was raised on 13 March, 2015, the supply and deliveries was recorded to have been done on 30 January, 2015. This clearly shows that the LPO was raised after the tractors were delivered which is contrary to the Public Procurement and Disposal Act 2005. Further, the management did not facilitate for the physical verification of the tractors.

Consequently, the validity, accuracy, completeness and existence of the 13 tractors and 13 ploughs amounting to Kshs.54,470,000 for the year ended 30 June 2015 could not be confirmed.

9.5 Stalled Projects

Included in the acquisition of assets is construction of road amount of Kshs.392,800,134. Further, included in this amount is an expenditure of cabro paving the Kilifi Town road walkways at a contract sum of Kshs.21,538,880. Physical verifications done in the month of December, 2015 over a year after the expected completion date of 27 November 2014, revealed that the project had stalled and the contractor was not on site having been paid Kshs.18,827,933 which amounted to 87% of the contract sum. Poor workmanship was noted on the sections done and the cabro had fallen off the walkways. Consequently, it has not been possible to ascertain if the County Government obtained value for money on the construction project.

9.6 Purchase of Mobile X-Ray machine

Included in the acquisition of assets is a purchases of a mobile x-ray machine from Pecar Investment at a cost of Kshs.3,944,810. Tenders for supply and delivery of the mobile x-ray machine were done through restricted tendering. Among the mandatory conditions to be complied with were experience in similar nature of work and proof of financial capability. However, documents made available for audit revealed that Pecar Investments had no experience in similar nature of work and did not produce proof of financial capability, hence failed to meet the

mandatory requirements and should have been disqualified for financial evaluation.

Consequently, the management was in breach of the Public Procurement and Disposal Act, 2005 and the validity, accuracy and completeness of the expenditure of Kshs.3,944,810 for the year ended 30 June 2015 could not be ascertained.

9.7 Purchase of Printer, Scanner and Water Filters

Included in the acquisition of assets is a purchase of printer, scanner and copier at a cost of Kshs.2,950,000 and ceramic water filters at a cost of Kshs.2,992,500. The County Government awarded Victory Tech Supplies to supply these items using request for quotations method contrary to the Public Procurement and Disposal Regulations, 2006 Section 59 (1) which states that the maximum level of expenditure under this method is Kshs.2,000,000.

In consequence, the management was in breach of the Law and the propriety of the expenditure of Kshs.2,992,500 for the year ended 30 June 2015 could be confirmed.

9.8 Purchase of Laundry Washer

Included in the acquisition of assets is a purchases of laundry washer to Benham International Ltd at a cost of Kshs.11,080,800. However, records made available did not contain minutes of the tender committee and requisitions to confirm how the supplier was identified and whether the procurement regulations were followed.

Consequently, the propriety of acquisition of laundry washer at a cost of Kshs.11,080,800 for the year ended 30 June 2015 could not be confirmed.

9.9 Purchase of Health and Agricultural Equipment

Included in the acquisition of assets is a purchases of health and agricultural equipment at a total cost of Kshs.27,709,599. Ziyale Investments, Keviha supplies and CMC Motors Group Ltd were paid Kshs.12,000,000, Kshs.3,849,999 and Kshs.11,859,600 respectively for supply of 3 ultra-machines for the department of health, supplying oxygen concentrators to Kilifi County Government hospital and supply of agricultural machinery and equipment. However no invoice, delivery note, LPO and requisition from the user departments were availed for audit verification. Minutes of the tender committee were also not availed to confirm how the suppliers were identified and whether the procurement regulations were adhered to.

Consequently, the propriety of acquisition of health and agricultural equipment at a cost of Kshs.27,709,599 for the year ended 30 June 2015 could not be confirmed.

9.10 Purchase of Tree Seedlings

Included in the acquisition of assets is a purchase of tree seedlings at a cost of Kshs.9,311,000. However, records in support of the distribution of the items were

not availed for audit review. Further, while the LPO was dated on 30 June 2014, the tender minutes are dated on 7 July 2014 contrary to Public Procurement and Disposal Regulations 2006 which requires the tender to be discussed in a meeting before award.

Consequently, the propriety of acquisition of tree seedlings at a cost of Kshs.9,311,000 for the year ended 30 June 2015 could not be confirmed.

9.11 Rehabilitation and Renovation of Plant and Machinery

Included in the acquisition of assets is rehabilitation and renovation of plant and machinery at a cost of Kshs.5,812,686 in the department of agriculture and fisheries. However, supporting documents on how the expenditure was incurred were not availed for audit review.

Consequently, the propriety of rehabilitation and renovation of plant and machinery at Kshs.5,812,686 for the year ended 30 June 2015 could not be confirmed.

9.12 Partitioning of County Government Public Service Board Offices

Included in the acquisition of assets is partitioning of County Government Public Service Board offices at a contract sum of Kshs.5,520,854. The County Government Tender Committee single sourced works relating to partitioning of County Government Public Service Board offices (CG/KLF/CPSB/ADM/26/Vol. 21/26) to the Lessor, i.e. M/s Kilifi Complex Centre on 7 July 2014 for a contract sum of Kshs.5,520,854. The management did not avail project file for audit review. The Lessor was paid the contract sum in full. However, no inspection certificate was availed to confirm the work was duly supervised and approved by a project manager.

Consequently, the propriety of partitioning of County Government Public Service Board offices at a cost of Kshs.5,520,854 for the year ended 30 June 2015 could not be confirmed.

9.13 Purchase of Relief Food

Included in the acquisition of assets is a purchase of beans for relief food at a cost of Kshs.6,555,000. The County Government used restricted tendering to procure beans. The evaluation committee recommended M/s Estali Enterprises for award on 20 May 2015. However, technical evaluation report was not availed for audit to support this award. Further, records availed indicated that the beans had been received on 18 May 2015 as per report of inspection and acceptance committee. No records were availed for audit on how the relief food was distributed.

Consequently, the propriety of acquisition of relief food at a cost of Kshs.6,555,000 for the year ended 30 June 2015 could not be confirmed.

10 Social Security Benefits

Included in the statement of receipts and payment for the year ended 30 June 2015 is an amount of Kshs.39,412,394 in respect of social security benefits.

However, payment vouchers and other supporting documents were not availed for audit review.

Consequently, the accuracy, completeness and propriety of social security benefits expenditure of Kshs.39,412,394 for the year ended 30 June 2015 could not be confirmed.

11 Receipts - Other Receipts

11.1 Unsupported Revenue

The statement of receipts and payments reflect an amount of Kshs.636,560,641 in respect of other receipts for the year ended 30 June 2015. However, analysis of the total collections during the year amounted to Kshs.550,816,702.95 resulting to an unexplained or reconciled variance of Kshs.85,743,938.05.

11.2 Unsupported Revenue

Information availed for audit review indicated that single business permits revenue at Kilifi South Sub-County Government office (Mtwapa) amounting to Kshs.4,897,000 was not unaccounted in these financial statements.

11.3 Internal Controls on Revenue System

Information available indicated that revenue officers had full access to the property rates module system and were making adjustments to customers' accounts without any reference to head office thus prone to manipulation. A sample of property rates adjustments done at Kilifi Sub County Government office revealed downward adjustment of property rates on plot number 246-01447/MNIII/449 whose outstanding rates balance as at 30 June 2014 stood at Kshs.137,568,878. This figure was adjusted to Kshs.548,800 as at 30 June 2015. Further, six plots owned by Lota Automobiles Ltd and which had a combined outstanding balance of Kshs.24,369,984 as at 30 June 2014 were adjusted to Kshs.256,564 as at 30 June 2015. No evidence of payment was produced for audit verification to justify the adjustments and there is a possibility that the county government is losing revenue through revenue officers' manipulation of the revenue records.

Consequently, the accuracy and completeness of other receipts amounting to Kshs.636,560,641 for the year ended 30 June 2015 could not be confirmed.

12 Assets and Liabilities from the Defunct Local Authorities

As reported in the previous year, the financial statements presented for audit review do not have disclosures on assets and liabilities handed over from the defunct local authorities. Further, no handing over report of the assets and liabilities was produced for audit verification.

Consequently, the validity and completeness of the assets and liabilities of the County Government as at 30 June 2015 could not be confirmed.

13.0 Control and Performance

13.1 Budgetary Utilization

The County Government of Kilifi had a total budget of Kshs.9,882,829,324 voted for the financial year 2014/2015 comprising of Kshs.4,599,357,242 for development and Kshs.5,283,472,082 for recurrent expenditure. Further, the county government actual expenditure amounted to Kshs.7,322,352,126 thus resulting to an under absorption of Kshs.2,560,477,198 or 26% as summarized below;

Item	Approved Budget for 2014/2015 (Kshs.)	Actual Expenditure for 2014/2015 (Kshs.)	Under Absorption (Kshs.)	Under Absorption (%)
Development Vote	4,599,357,242	2,679,940,076	1,919,417,166	42
Recurrent Vote	5,283,472,082	4,642,412,050	641,060,032	12
Total	**9,882,829,324**	**7,322,352,126**	**2,560,477,198**	**26**

The under absorption is an indication of idle funds which may have negative effect on the delivery of goods and services to the residents of the Kilifi County or an indication of poor budgetary process hence need to re-think on the county government budget mechanism with a view to directing resources to priority areas.

13.2 Governor's Budget

The financial statements availed for audit review indicated that the budget for Kilifi Governor amounted to Kshs.821,217,548 voted as Kshs.294,557,073 for recurrent and Kshs.526,660,475 for development. However, the analysis of the vote book indicated that the actual amount availed for the Governor was Kshs.731,045,306 resulting to an under absorption of Kshs.90,172,242 which the management could not explain.

Below is the budget expenditure analysis:

Budget Vote	Budgeted Amount (Kshs.)	Actual Expenditure (Kshs.)	Under Absorption (Kshs.)	%
Compensation of Employees	151,959,010.00	149,807,913.35	2,151,096.65	1.42
Utilities Supplies and Services	11,723,830.00	11,050,120.35	673,709.65	5.75
Communication Supplies and Services	2,629,260.00	156,769.25	2,472,490.75	94.04
Domestic Travel and Subsistence	44,720,334.00	37,405,919.60	7,314,414.40	16.36
Foreign Travel and Subsistence	20,411,800.00	9,678,454.00	10,733,346.00	52.58

Printing, Advertising and Information Supplies and Services	42,308,060.00	32,787,906.80	9,520,153.20	22.50
Rentals of Produced Assets	2,070,360.00	1,826,856.50	243,503.50	11.76
Training Expenses	16,057,145.00	7,513,474.60	8,543,670.40	53.21
Hospitality Supplies and Services	21,389,030.00	13,627,936.70	7,761,093.30	36.29
Insurance Costs	36,197,000.00	34,668,507.50	1,528,492.50	4.22
Specialized Materials and Services	22,622,500.00	20,670,951.60	1,951,548.40	8.63
Office and General Supplies and Services	35,188,450.00	25,520,630.60	9,667,819.40	27.47
Fuel, Oils and Lubricants	16,800,000.00	16,545,847.30	254,152.70	1.51
Other Operating Expenses	31,663,100.00	25,339,623.30	6,323,476.70	19.97
Routine Maintenance - Vehicles and Other Transport Equipments	10,439,550.00	9,434,141.80	1,005,408.20	9.63
Routine Maintenance - Other Assets	6,499,024.00	4,992,791.00	1,506,233.00	23.18
Donations	16,862,306.00	13,404,160.00	3,458,146.00	20.51
Social Security Benefits	7,463,300.00	7,463,288.40	11.60	0.00
Refurbishment of Non-Residential Buildings	-	(7,198,062.00)	7,198,062.00	#DIV/0!
Purchase of Motor Vehicles	8,600,000.00	2,299,999.80	6,300,000.20	73.26
Purchase of Household Furniture	4,989,400.00	4,989,395.90	4.10	0.00
Purchase of Office Furniture and General Equipments	36,528,517.00	30,358,349.00	6,170,168.00	16.89
Purchase of Software-Exchequer	33,447,830.00	33,352,827.80	95,002.20	0.28
Housing loans to public servants	142,475,500.00	142,475,500.00	0.00	0.00
Car loans to Public Servants	8,000,000.00	8,000,000.00	0.00	0.00
Total	**731,045,306.00**	**636,173,303.15**	**94,872,002.85**	**12.98**

The following were observed;

I. The total budget underutilization was Kshs.94,872,002.85 or 12.98%. The underutilization of the funds may have impacted negatively on the delivery of goods and services to the public.

II. Included in the Office of the Governors actual expenditure is a negative amount of Kshs.7,198,062 on refurbishment of non-residential buildings whose explanation and basis for its negativity was not given.

13.3 Revenue Budget

During the financial year 2014/15, the County Government had budgeted to collect a total revenue of Kshs.1,000,000,000 from local revenue sources. However, the County Government managed to collect Kshs.532,734,125.98, resulting to a shortfall of Kshs.467,265,874 or 46.8% as tabled below:

Revenue Source	Budget Kshs	Actual Collection Kshs	(Under)/Over Collection Kshs	%(Under)/ Over collection
Advertisements and Bill boards	30,000,000	16,451,400	13,548,600	(45.2%)
Auction & landing fees	0	305,115	(305,115)	100
Building Dev. & inspection	50,000,000	21,383,735	28,616,265	(57.2%)
Fines	0	426,510	(426,510)	0
General fees and charges	3,000,000	2,789,434	210,566	(7.0%)
House and stalls rents	10,000,000	11,437,216	(1,437,216)	14.4%
Land rates	210,000,000	130,060,104	79,939,896	(38.1%)
Market Fees	80,000,000	24,635,218	55,364,782	(69.2%)
Miscellaneous	6,000,000	18,156,908	(12,156,908)	(202.6%)
Other revenues	55,000,000	2,358,576	52,641,424	(95.7%)
Plot Rent	30,000,000	10,218,310	19,781,690	(65.9%)
Public Health fees	5,000,000	6,686,777	(1,686,777	33.7%
Quarry	0	4,172,010	(4,172,010)	100
Sale of Tender Documents	4,000,000	4,672,900	(672,900)	16.8%
Single Business Permit	180,000,000	97,541,873	82,458,127	(45.8%)
Social services fees	7,000,000	2,815,253	4,184,747	(59.8%)
Total Cess	280,000,000	134,655,146	145,344,854	(51.9%)
Vehicle Parking Receipts	50,000,000	43,346,559	6,653,441	(13.3%)
Total	**1,000,000,000**	**532,734,125**	**467,265,875**	**(46.7%)**

The management did not provide explanation for the revenue shortfall. The under collection could be a manifestation of revenue leakage due to possible weaknesses in collection and recording of revenue and poor revenue control systems. This may negatively affect delivery of goods and services and planned programs to the detriment of the citizens of Kilifi County.

14.0 Projects Implementation

Seven projects were sampled for verification for the year under review and the following were observed:

14.1 Underutilization of the Budget

No.	Project	Description of Projects	Expenditure Incurred	Budgeted Amount	Utilization
			Kshs	Kshs	%
1.	Construction of Buildings	Building of ECD centers, health facilities, market, youth polytechnics, sub-County Government offices	755,799,599	1,413,290,258	53.5%
2.	Refurbishment of Buildings	Refurbishment and renovation of existing of offices, health facilities, market, youth polytechnics	130,213,473	251,934,621	51.7%
3.	Construction of Roads	rehabilitation of roads	432,073,788	942,200,000	45.9%
4.	Purchase of Vehicles and Other Transport Equipment	Involved purchase of motor vehicles, ambulances, tractors and trucks	242,020,198	381,675,724	63.4%
5.	Purchase of Specialized Plant, Equipment and Machinery	involved acquisition of medical equipment's, agricultural machinery and other office equipment	324,472,924	573,293,412	56.6%
6.	Purchase of Certified Seeds, Breeding Stock and Live Animals	Involved purchase of seedlings for reforestation and acquisition of breeding stocks for farmers	101,057,105	113,514,847	89.0%
7.	Purchase of Land	The County Government procured land to develop fire station, bus park and shops along Mtwapa -Kilifi Road	310,218,582	395,888,985	78.4%
	Total		**2,295,855,669**	**4,071,797,847**	**56.4%**

Slow implementation of the projects may hamper delivery of goods and services to the citizens of Kilifi County.

14.2 Late Deliveries of Contracts

Audit review of contract agreements and contract execution revealed significant delays in the implementation of some of the projects. Two major projects visited were found incomplete more than 6 months after the agreed completion date had lapsed as follows.

Project	Department	Contract Sum	Start Date	Completion Date	Contractor	Observations
Mariakani Highrise market	Trade Development and Regulation	33,044,688	17/9/14	17/4/15	Romwaki Enterprises (EA) Ltd	By 15/8/2015 Kshs. 27,294,871 had been paid (82.6%) but the contractor was yet to complete the contract as observed during the visit on 16/12/2015
Fumbini Resource center	Education, Youth Affairs and Social Development	57,821,238		27/5/15	Jyan Construction Ltd and 2 sub-contractors	The works has been partly delayed by the County Government failing to award and communicate to mechanical works sub-contractor. The main contractor actually completed the works substantially but due to late appointment of mechanical works sub-contractor some demolitions has to be done. The center was found incomplete during audit visit on 21/12/2015
Total		**90,865,926**				

By failing to complete the projects on time, delivery of services are delayed to the intended beneficiaries. The County Government may fail to attain effective delivery of goods and service due to slow implementation and absorption of projects funds.

15.0 Internal Audit and Audit Committee

During the audit, it was observed that the implementation of the internal audit work plan for 2014/15 was not complete and the management explained that this was due to human resource constraints. It was also observed that the internal audit function did not have necessary operational independence as the County Government was yet to constitute audit committee. The internal audit was reporting both administratively and operational to chief officer- finance and economic planning rather than to an audit committee. Without a strong internal audit function, the County Government may not be able to adequately identify weaknesses in financial and operational controls on timely basis in order to take corrective action.

16.0 Use of Integrated Financial Management Information System (IFMIS)

An amount of Kshs.133,218,278.70 was paid through the Kilifi Recurrent Account. However, these payments were not processed through the IFMIS system. It was not clear and the management has not explained why IFMIS has not been fully

operationalized as required by Section 105(d) of the Public Finance Management Act, 2012 which requires the County Treasury to implement a finance management system. This may lead to issues of poor accountability and lack of monitoring mechanism on the expenditure of public funds.

17.0 Non Availability of Personnel Records

The County Government employed 278 new staff during the year increasing the number of staff in employment from 2030 as at July 2014 to 2,308 as at June 2015. Out of this number, 114 were female while 164 were male thus meeting the 30% gender balance. The following were observed;

i. The County Government did not have an authorized staff establishment to guide the need for new staff. Records of existing staff under each approved established position were not availed neither was the approval for recruitment of new staff.

ii. Minutes on process of opening of applications, shortlisting and invitation of shortlisted applicants for interview were also not availed for audit review.

iii. There were 12 employees who were still in employment although they have attained the mandatory retirement age of 60 years.

iv. Some casuals/contract officers were paid as much as Kshs.60,000 per month outside the payroll. Details of the relevant cadres of casuals and the justification for the amounts paid and muster rolls were not availed for audit review.

In view of the above, the system and policies on the human resource need review for strengthening in order to achieve sound internal controls.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

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

Nairobi

26 September 2016