REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF COUNTY GOVERNMENT OF MOMBASA

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 MOMBASA FOR THE YEAR ENDED 30 JUNE 2015

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of County Government of Mombasa set out on pages 6 to 92, which comprise, statement of financial assets as at 30 June 2015, and the statement of receipts and payments, statement of cash flows, summary statement of appropriation 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 the 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 of 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 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 of 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

1.0 Inaccuracies in the Financial Statements

1.1 Variance between Financial Statements balances and IFMIS Balances

The figures in the financial statements for the year ended 30 June 2015 availed for audit contained discrepancies amounting to Kshs.8,404,423,116 compared with the figures in the IFMIS as summarized below:

Details	Financial Statements Amount	IFMIS report Amounts	Variance
Receipts	7,232,213,000	0	7,232,213,000
Total Payments	7,018,907,000	7,777,511,116	758,604,116
Financial Assets	413,606,000	0	413,606,000
Total	**14,928,027,000**	**7,777,511,116**	**8,404,423,116**

It was not clear why the expenditure in IFMIS varied with expenditures as presented in the financial statements and therefore the validity of the figures contained in the statements of receipts and payments could not be ascertained for the year ended 30 June 2015.

1.2 Arithmetical Errors

The statement of appropriations: recurrent and development had arithmetical errors under budget utilization difference column of Kshs.39 million as shown in the table below:

Component	Balance as per financial statement (Kshs. "000)	Recomputed balance (Kshs."000)	Variance (Kshs. "000)
Compensation to employee	380,961	358,565	22,396
Use of goods and services	323,658	86,530	237,128
Acquisition of assets	1,358,809	1,598,786	-239,977
Totals	2,871,032	2,851,485	19,547
Total	**4,934,460**	**4,895,366**	**39,094**

In the circumstances, the accuracy of the statements of appropriations for year ended 30 June 2015 could not be confirmed.

2.0 Bank Balances

2.1 Unsupported Bank Balances

The statement of assets as at 30 June 2015 indicates a bank balance of Kshs.299,127,000. Included in balance are twelve bank account balances totaling Kshs.30,337,054 and whose cash book and bank reconciliation statements were not availed for audit review. The balances were on the basis of bank statement balances as shown below:

No.	Name of Bank, Account No.	Account Name	Balance (Kshs.)
i	Kenya Commercial Bank	Renewal Fund	500
ii	Eco Bank	Cost Sharing	483
iii	Equity Bank	Mock	624,345
iv	Standard Bank	LASDAP	1,064,900
v	Barclays Bank	Uwezo	969,573
vi	Kenya Commercial Bank	LATF	22,812,060
vii	Co-operative Bank	County Assembly	261,620
viii	Co-operative Bank	LATF	21,486
ix	Equity Bank		-3,696
x	Kenya Commercial Bank	Deposit	2,960,402
xi	Kenya Commercial Bank	Salary control	93,206
xii	Kenya Commercial Bank	Alcoholic drinks	1,532,175
	Total		**30,337,054**

Further, bank balance confirmation certificates for county revenue fund account, development account and recurrent account operated in the Central Bank of Kenya and with a total credit balance of Kshs.26,356,384 as at 30 June 2015 were not availed for audit verifications.

2.2 Development Bank Account

Included in the bank balance of Kshs.299,127,000 as at 30 June 2015 at note.22A to the financial statements is a balance of Kshs.4,252,000 in respect of development expenditure bank account. However, analysis of the closing bank balance against development expenditure revealed a shortfall of Kshs.131,449,000 as analyzed below:

Development Account Opening Balance as at 1/07/2014 **(A)** **(Kshs. '000')**	Exchequer receipts in 2014/2015 **(B)** **(Kshs. '000')**	Funds available in Development Account in F/Y 2014/2015 **C=(A+B)** **(Kshs. '000')**	Total expenditure on development projects **D** **(Kshs. '000')**	Expected Development Bank Balance **E =(C – D)** **(Kshs. '000')**	Cash book balance **F** **(Kshs. '000')**	Shortfall **G = (E-F)** **(Kshs. '000')**
135,701	1,532,186	1,667,887	1,532,186	135,701	4,252	131,449

The shortfall was neither explained nor reconciled. This may imply irregular reallocation of the development funds to recurrent expenditure contrary to the Section 154 (2.b) of Public Finance Management Act, 2012 which states that an accounting officer shall not authorize the transfer of an amount that is appropriated for capital expenditure except to defray other capital expenditure.

2.3 Defunct Local Authority's Bank Accounts

As reported in 2013/2014, a review of the supporting list of bank account balances of Kshs.299,127,000 for the period ended 30 June 2015 revealed that ten (10) bank accounts of the defunct Municipal Council of Mombasa were still operational. This is contrary to Section 119 (2) of the Public Finance Management Act, 2012 which requires each County Treasury to establish a single account at the Central Bank of Kenya or a bank approved by the County Treasury. Therefore, the County Government is in breach of the law.

Further, the bank reconciliation statements of defunct Mombasa Municipal Council as at 28 February, 2013 indicated that there were unpresented cheques amounting to Kshs.839,652,000 but there is no evidence that the same were reversed in the cash books.

In the circumstances, the validity, accuracy, completeness and existence of the bank balance amounting to Kshs.299,127,000 as at 30 June 2015 could not be confirmed.

3.0 Outstanding Imprest

The statement of assets as at 30 June 2015 indicates that the County Government of Mombasa had un-surrendered imprest amounting to Kshs.112,438,000. The audit examination revealed that Kshs.41,007,000 was held by ninety four (94) officers with multiple un-surrendered imprest contrary to Section 5.6.5 of the Government Financial Regulations and Procedures which require that an officer issued with imprest to account for the same within 48 hours of conclusion of the assignment.

In the circumstances, the propriety and recoverability of outstanding imprest balance of Kshs.112,438,000 as at 30 June 2015 could not be ascertained.

4.0 Deposits and Retentions

The statement of assets as at 30 June 2015 reflect nil balance in respect of accounts payables – deposits and retentions. However, according to Annex 2 to the financial statements, a total of Kshs.55,735,400 was deducted as retention fees from various

contractors during the financial year. In addition, included in the bank balance of Kshs.297,127,000 under Note.22A financial statements is Mombasa deposit bank account with a balance of Kshs.2,960,000.

In the circumstances, the status of accounts payables – deposits and retentions nil balance as at 30 June 2015 could not be confirmed.

5.0 General Account of Vote (GAV) Balance

The summary statement of provisionings for the year ended 30 June 2015 reflect GAV balance of Kshs.9,259,816,000 and exchequer provisionings account balance of Kshs.785,799,000. However, exchequer provisionings account balance of Kshs.785,799,000 is a balance brought forward from 2013/2014 financial year. It is not clear why exchequer for 2013/2014 financial year is still outstanding while the exchequers for 2014/2015 financial year was received in full.

In the circumstances, the accuracy of General Account on Vote in respect of exchequer provisionings account balance of Kshs.785,799,000 for the year ended 30 June 2015 could not be confirmed.

6.0 Other Receipts

6.1 Rates

According to Note 11 to the financial statements, other receipts balance of Kshs.2,485,055,000 for the year ended 30 June 2015 incudes rents of Kshs.946,244,000. Included in rent of Kshs.946,244,000 is property rates of Kshs.846,640,109. According to the County Treasury records, rates amounting to Kshs.45,922,605,354 were outstanding as at 30 June 2015 compared to a balance of Kshs.25,969,040,798 as at 30 June 2014 thus a rise of Kshs.19,953,564,556 being 43% rise. The valuation roll which was used for billing the plot owners had not been updated with new land subdivisions while more than 4,000 plots had been registered in the name of owners who could not be identified.

Further, the outstanding rates of Kshs.45,922,605,354 as at 30 June 2015 include penalties amounting to Kshs.39,450,100,542. Although the management has indicated that a clean-up has been done and the correct amount is supposed to be Kshs.11 million, the balance is not reflected in these financial statements.

6.2 Delay in Passing of the Finance Bill 2014

According to the County Assembly's Bill tracker, the Finance Bill 2014 was passed on 19 November 2014, fifty (50) days after the deadline of 30 September 2015 set by the law. This is contrary to Section 133 of Public Finance Management Act, 2012 which requires that not later than ninety days after passing the Appropriation Bill, the County Assembly shall consider and approve the Finance Bill with or without amendments. It was not clear how the revenue targets could have been achieved when the Bill enactment was delayed by over 50 days.

6.3 Revenue Not Transferred to County Revenue Fund Account

The statement of receipts and payments reflect a balance of Kshs.2,485,055,000 in respect of other receipts. However, according to the Local Authorities Integrated

Financial and Operations Management System (LAIFOMS) cashier analysis summary report for the year ended 30 June 2015, total revenue collected amounted to Kshs.2,492,018,238 resulting in unexplained nor reconciled variance of Kshs.6,963,238. In addition, the audit revealed that a total of Kshs.1,910,515,128 was transferred to County Revenue Fund account resulting in a balance of Kshs.574,539,872 not transferred to the County Revenue Fund account. This is contrary to Section 109 (2) of the Public Finance Management Act, 2012 which requires each County Treasury to ensure all money raised or received by or on behalf of the County Government is paid into the County Revenue Fund account. The non-compliance with the laws could result in irregular spending of revenue at source.

Further, out of the Kshs.574,539,872 not transferred to the County Revenue Fund Account, only Kshs.494,666,983 was reflected in the banks as detailed below:

No.	Location	Amount (Kshs)
1	Cooperative bank collection account – balance as at 30 June 2015	8,244,086
2	KCB I Collection account– balance as at 30 June 2015	156,619,800
3	KCB II Collection account– balance as at 30 June 2015	8,567,358
4	NBK Collection account– balance as at 30 June 2015	51,719,295
5	Collection Commissions and bank charges	20,765,172
6	Receipted cash bails	14,123,490
7	Refunds receipted	1,484,154
8	Receipted payroll deductions	63,695,794
9	Cash– balance as at 30 June 2015	3,666,000
10	Coast General Hospital revenue	154,383,578
11	Direct bankings	11,398,256
	Total	**494,666,983**

The balance of Kshs.79,872,889 was not reconciled nor explained by the management.

6.4 Coast General Hospital Revenues Not Remitted to County Treasury

Records availed for audit verifications indicated that during the period under audit, Coast General hospital collected a total of Kshs.154,383,578 on various chargeable services. However, the audit revealed that the revenue was spent at source instead of remitting to the revenue collection bank account. This is contrary to Article 207 of Constitution of Kenya, 2010 which requires all county revenues to be banked intact in revenue bank account. The unbanked revenue could be misappropriated or irregularly spent on unauthorized expenditure.

6.5 Multiple Revenue Collection Bank Accounts

Records availed for audit indicated that the County Government of Mombasa operates four (4) revenue collection bank accounts. Two accounts in KCB, one in National Bank of Kenya and another in the Cooperative bank. A review of the of National Bank of Kenya bank statements revealed that the account had been dormant since November 2014. Although the Cooperative bank account had been operational since 2013/2014 financial year, KCB I and KCB II collection accounts were opened in November 2014 and May 2015 respectively.

It is not clear and the management has not provided justification for operating several revenue collection bank accounts considering the banks have branches in several locations in the county.

6.6 Cess Collections

Included in other revenues balance of Kshs.2,485,055,000 under Note. 11 to the financial statements is receipts from administrative fees and charges of Kshs.1,426,019,000. Administrative fees and charges balance of Kshs.1,426,019,000 include cess revenue collection amounting to Kshs.345,284,281. Information availed for audit indicated that there are three (3) cess collection barriers in Mombasa County. However, audit inspection at the barriers revealed that although the County Government has automated revenue collection at barriers, it was not possible to determine the total number of trucks that passed through the barrier and the expected revenue to have been collected from the trucks.

6.7 Outsourcing of Revenue Collection Contract

The statement of receipts and payments for the year ended 30 June 2015 reflect a balance of Kshs.2,485,055,000 in respect of other receipts. Included in other receipts balance of Kshs.2,485,055,000 at note 11 to the financial statements is rents of Kshs.946,244,000, other property income of Kshs.70,368,000 and receipts from administrative fees and charges of Kshs.1,426,019,000. Records availed for audit indicated that the County Government of Mombasa entered into an agreement with a firm in partnership with a commercial bank to run a pilot project for automation of revenue collection from three main sources i.e. market fees, cess fees and parking fees at a cost of seven percent (7%) of total revenue collected. A total of Kshs.368,810,834 was collected from the revenue sources by 30 June 2015.

However, the following observations were noted:

i. According to the agreement signed on 30 January 2015, the pilot project was to run for six months and extend for two (2) years renewable if it was not terminated within the six months by the County Government. However, by the time of audit (November 2015), six months had lapsed thus automatically granting the firm the right to continue collecting revenue for the next two (2) years although there was no documentary evidence of how the firm's performance had been assessed in order to continue offering the service. In addition, there was no cost-benefit analysis done to compare revenue collected versus cost before and after the outsourcing.

ii. It was not clear how the firm was identified and selected to run the 6 months pilot project contrary to the Public Procurement and Disposal Act, 2005 and Regulations thereof on procurement of professional services which requires the procuring entity to invite expression of interest;

iii. Out of the Kshs.368,810,834 collected, a total of Kshs.26,527,430 was deducted by the bank as commission fees. In addition, the balance of Kshs.342,283,404 collected over six months period, a total of Kshs.165,187,158 had not been banked into the County Revenue Fund account contrary to Section 109 (2) of the Public Finance Management Act, 2012 which requires each County Treasury to

ensure all money raised or received by or on behalf of the County Government is paid into the County Revenue Fund account.

In the circumstances, the propriety, accuracy and completeness of other receipts amounting to Kshs.2,485,055,000 for the year ended 30 June 2015 could not be ascertained.

7.0 Acquisition of Assets

7.1 Vehicles and Equipment

The statement of receipts and payments reflect a balance of Kshs.1,452,025,000 for the year ended 30 June 2015 in respect of acquisition of assets. According to note 18 to the financial statements, the balance of acquisition of assets of Kshs.1,452,025,000 include purchase of vehicles and other transport equipment amounting to Kshs.187,910,000. However, log books for vehicles costing Kshs.195,252,031 were not availed for audit verification. The management indicated that the log books are still with the suppliers. It was not clear why the suppliers were holding the ownership documents. In addition, the audit could not verify expenditure amounting to Kshs.77,849,531 as the respective payment vouchers were not availed for audit verifications.

7.2 Construction of Roads

Included in the balance of acquisition of assets of Kshs.1,452,025,000 for the year ended 30 June 2015 at note 18 to the financial statements is Kshs.660,397,000 for construction of roads. However, the audit verification revealed that contracts for construction of eight (8) roads at a total cost of Kshs.60,830,174 were awarded through request for quotation method contrary to Section 88 of the Public Procurement and Disposal Act,2005 which sets the maximum threshold of Kshs.4,000,000 for request for quotations for works under class A. Although the management, has indicated that the procurement was restricted, there was no evidence that the tender committee approved the alternative procurement method.

In the circumstances, the existence and ownership of vehicles worth Kshs.173,101,562 and propriety of the expenditure on roads amounting to Kshs.60,830,174 for the period ended 30 June 2015 could not be confirmed.

8.0 Other Grants and Transfers

Included in the statement of receipts and payments for the year ended 30 June 2015 is Kshs.83,768,000 in respect other grants and transfers. According to note. 16 to the financial statements, other grants and transfers balance of Kshs.83,768,000 include a balance of Kshs.53,761,000 in respect of scholarships and other educational benefits. However, the audit verification revealed that scholarships amounting to Kshs.42,204,180 was paid through the County Government's recurrent bank account instead of paying from the bursary fund's bank account. Although the management has attributed the payments to urgency to pay school fees, it was not clear why the payment was made before relevant legislation was put in place.

In the circumstances, the accuracy, regularity and validity of other grants and transfers amounting to Kshs.42,204,180 for the year ended 30 June 2015 could not be confirmed.

9.0 Council of Governors

The statement of receipts and payments for the year ended 30 June2015 revealed that the County Government incurred expenditure amounting to Kshs.24,863,278 in respect of Council of Governors. The expenditure was recorded in the financial statements as follows:

Expenditure Vote	Amount (Kshs)
Use of goods and services	14,146,278
Acquisition of assets	8,000,000
pending bills	2,717,000
Total	**24,863,278**

The payments were supported with minutes of resolutions by Council of Governors which required each county government to set aside Kshs.20 million to support the secretariat. It was not clear why the County Government funded the Council of Governors whose budget is funded by the National Treasury. In addition, the expenditure was not provided for in County Government approved budget estimates for the year 2014/2015.

Consequently, the propriety, validity and regularity of expenditure on Council of Governors amounting to Kshs.24,863,278 for the year ended 30 June 2015 could not be confirmed.

10.0 Fixed Asset

Annex 4 to the financial statements is a summary of fixed asset register which reflect a balance of Kshs.10,936,215,000 as at 30 June 2015 compared to Kshs.9,824,605,000 as at 30 June 2014 indicating in an increase of Kshs.1,110,610,000. However, according to Note. 18 to the financial statements, a total of Kshs.1,452,025,000 was spent on acquisition of assets resulting in unreconciled nor explained difference of Kshs.341,415,000.

Consequently, the accuracy, existence and completeness of the assets balance of Kshs.10,936,215,000 as at 30 June 2015 could not be ascertained.

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

As reported in the year 2013/2014, Annex 4 to the financial statements indicated that the County Government had cumulative assets amounting to Kshs.10,936,215,000 as at 30 June 2015 (2013/2014 - Kshs.9,824,605,000) since inception of the County Government. However, information available indicates that the Transition Authority verified assets and liabilities of the defunct Municipal Council of Mombasa and issued a report in November 2014. However, no evidence was availed for audit to indicate that the assets and liabilities were handed over to the County Government.

Consequently, the accuracy and completeness of the assets and liabilities of the County Government presented in these financial statements could not be confirmed.

12.0 Pending Bills

12.1 Pending Bills Balance

Note 26.1 to the financial statements reflect pending accounts payable balance of Kshs.1,971,647,000 as at 30 June 2015 compared to Kshs.3,575,737,000 as at 30 June 2014. According to analysis of pending accounts payables at Annex 1 to the financial statements, the balance of Kshs.1,971,647,000 relate to expenditure in 2014/2015 financial year. This implies that all the 2013/2014 financial year pending bills amounting to Kshs.3,575,737,000 were settled or omitted during period under audit. In addition the County Government does not maintain a register of pending bills.

The County Government may have irregularly reallocated funds from approved budget lines to pay pending bills contrary to Public finance management Act, 2012 (154) (1) which require an accounting officer not to authorize the transfer of an amount that is appropriated.

12.2 Unremitted Taxes

Included in pending bills balance of Kshs.1,971,647,000 under Annex 1 to the financial statements are various taxes amounting to Kshs.76,524,000 due to Kenya Revenue Authority. However, according to a letter from KRA dated 01/12/2014, the County Government of Mombasa had tax arrears amounting to Kshs.419,398,595 which include penalties and interest amounting to Kshs.147,630,544. Although the management has been making installment payments, it is not clear and the management has not explained why the taxes were deducted and not remitted to Kenya Revenue Authority on due dates to avoid payment of penalties. Kenya Revenue Authority may take enforcement measures to recover the unpaid taxes which may affect the operations of the County Government.

12.3 Coast General Hospital Bills

According to records maintained by Coast General Hospital, bills amounting to Kshs.164,604,519 were outstanding as at 30 June 2015. A review of the pending bills revealed that the amount has accumulated since 2007/2008 financial year. In addition, the bills were not included in the outstanding bills of Kshs.1,971,647,000 as reflected in Note.26.1 to these financial statements. Suppliers and contractors may stop supplying or rendering goods and services which may affect service delivery at the hospital. In addition, the pending bills may accrue penalties and fines for non-payment.

In the circumstances, the accuracy, completeness and validity of pending bills amounting to Kshs.1,971,647,000 could not be ascertained.

13.0 Garbage Collection

The statement of receipts and payments reflects a balance of Kshs.1,598,854,000 for use of goods and services for the year ended 30 June 2015. Included in this is expenditure amounting to Kshs.289,889,751 paid to a firm outsourced to collect garbage. Audit review of the expenditure revealed that it was charged under different votes as detailed below:

Vote	Amount (Kshs)
Insurance	18,781,560
Specialized materials and services	69,121,556
Other operating expenditure	201,986,635
Total	**289,889,751**

It was not clear under which vote the expenditure had been budgeted for. In addition, according to the department of water, environment and natural resources' project status report, garbage collection was one of department's development project implemented in the financial year 2014/2015 and classified as intangible asset before reclassifying as use of goods and services. This implies that development votes were reallocated to recurrent expenditure. This was contrary to Section154 (1) which require an accounting officer not authorize the transfer of an amount that is appropriated for capital expenditure except to defray other capital expenditure.

Therefore, County Government was in breach of the law.

14.0 Youth Fish Farming Project

The statement of receipts and payments reflects acquisition of assets balance of Kshs.1,452,025,000 for the year ended 30 June 2015. Included in this is expenditure of Kshs.392,441,000 in respect of purchase of specialized plant, equipment and machinery. The audit review observed that the expenditure of Kshs.392,441,000 included expenditure amounting to Kshs.93,673,280 under Youth fish farming project implemented during the financial year by the department of agriculture and livestock. The project status report indicated that the department allocated Kshs.100,000,000 for construction of thirty (30) fish ponds in each ward. The total expenditure of Kshs.93,673,280 represented 94% of the total project budget.

However, project inspection revealed that Kshs.50,885,000 was spent on the supply and conversion of containers in to fish ponds and the breakdown of the cost or bills of quantities for the work was not availed for audit verifications.

Consequently, the propriety of Kshs.50,885,000 of the fishing project could not be ascertained for the year ended 30 June 2015.

15.0 Non-closure of Bank Accounts in Commercial Banks and Lack of Bank Reconciliation Statements

Records available indicated that the County Government operates twenty two (22) bank accounts in various Commercial Banks which include the bank accounts for the defunct local authority. As at the time of this audit, twenty two (22) bank accounts with a balance of Kshs.193,702,559 bank accounts had not been closed and neither were the respective bank reconciliations statements availed for audit review as summarized below:-

	Name of Bank	Account Name	Balance as at 30 June 2015 (Kshs. "000")
i	Barclays Bank	Uwezo	969,923
ii	Chase Bank		20,000,000
iii	Co-operative Bank	Revenue Collection Account	8,244,086
iv	Co-operative Bank	Instant	0
v	Co-operative Bank	Solid Waste Management	0
vi	Co-operative Bank	Main account	0
vii	Co-operative Bank	Salary account	0
viii	Co-operative Bank	County Assembly	262
ix	Co-operative Bank	LATF	21,486
x	Co-operative Bank	Imprest	120,757
xi	Eco Bank	Cost Sharing	483,000
xii	Equity Bank	Mock	624,000
xiii	Equity Bank	Business C/A	(3,784)
xiv	Kenya Commercial Bank	Renewal Fund	1,000
xv	Kenya Commercial Bank	LATF	22,812,000
xvi	Kenya Commercial Bank	MSA Collection ACC2	8,567,358
xvii	Kenya Commercial Bank	MSA Collection ACC1	156,619,800
xviii	Kenya Commercial Bank	MSA Deposit	2,960,401
xix	Kenya Commercial Bank	MSA County Salary Control	93,206
xx	Kenya Commercial Bank	MSA Alcoholic Drinks control	1,532,175
xxi	National Bank	Amanah Institutional CA	51,719
xxii	Standard Bank	LASDAP	1,064,900
	Total		**193,702,559**

Failure to close the accounts is contrary to Paragraph 22 of the National Treasury Circular No. 14 which required Accounting Officers of the County Government entities to open and operate bank accounts only in Central Bank of Kenya except imprest bank account, revenue bank account and County public fund bank accounts.

In the circumstances, the validity, accuracy and completeness of bank balances amount of Kshs.299,127,000 as at 30 June 2015 could not be ascertained. Also the County Government is in breach of the law.

16.0 Budget Controls and Performance

The County Government of Mombasa had a total budget of Kshs.9,870,298,137 voted for the financial year 2014/2015 comprising of Kshs.3,182,659,446 for development and Kshs.6,687,638,691 for recurrent expenditure. This was a decrease of 15% compared to 2013/2014 financial year budget of Kshs.11.7 million.

The budget absorption was as follows:

Item	Budgeted Allocation 2014/2015	Actual 2014/2015	Under Absorption	Under Absorption in %	As % of Total Expenditure
Recurrent	6,687,638,691	5,486,627,000	1,201,011,691	18	78
Development	3,182,659,446	1,582,186,000	1,600,473,446	49	22
Total	**9,870,298,137**	**7,018,907,000**	**2,851,391,137**		

16.1 Development Vote

Records availed for audit review indicated that out of Kshs.3,182,659,446 under development vote, only Kshs.1,582,186,000 or 51% had been spent leaving a balance of Kshs.1,600,473,447 unutilized.

16.1.2 Development Budget Performance Analysis

The County Government of Mombasa has twelve (12) departments and the following is the budget performance analysis per department for the year ended 30 June 2015:

ENTITY	APPROVED ESTIMATES	EXPENDITURE AS AT 30-06-2015	BALANCE AS AT 30-06-2015	UNDER ABSORPTION IN %
County Executive	406,206,531	246,028,664	160,177,867	39
Public Service Board	23,700,000	0	23,700,000	0
Finance and Economic Planning	510,438,900	424,061,393	86,377,507	17
Tourism	51,635,603	18,664,089	32,971,514	64
Education	188,000,000	48,214,108	139,785,892	74
Health	339,545,692	21,486,841	318,058,851	94
Water, Environment	309,689,100	231,302,467	78,386,633	25
Youth and Gender	80,890,502	17,809,437	63,081,065	78
Trade and Energy	414,569,980	161,662,252	252,907,728	61
County Planning, land and	93,761,560	21,615,164	72,146,396	77

Housing				
Transport and infrastructure	597,204,278	458,769,798	138,434,480	23
Agriculture and livestock	135,667,300	44,854,300	90,813,000	67
County Assembly	31,350,000	9,049,900	22,300,100	29
Unallocated	-	-171,332,413	-	
Total	**3,182,659,446**	**1,582,186,000**	**1,600,473,446**	

The above analysis indicates that the County Government of Mombasa did not utilize a total of Kshs.1,600,473,446 voted for development. It was also observed that the whole development budget of Kshs.23,700,000 allocated to the Public Service Board was not utilized.

The management has not explained why key departments like health and education under-utilized large percentage of their budget allocations. This may be also an indication of poor project planning and monitoring which denies delivery of goods and services to the residents of Mombasa County. Alternatively, the management may need to re-look at its budget making process with a view of allocating more funds to priority areas.

16.2 Recurrent Vote

Out of the recurrent budget of Kshs.6,687,639,000 available for the year under review, below is the budget performance analysis:

Item	Budget (Kshs. "000")	Actuals (Kshs. "000")	Under-Expenditure (Kshs."000")	% of under-utilisation	% of total Expenditure
Compensation of Employees	4,187,982	3,829,417	358,565	9	70
Use of Goods and Services	1,659,535	1,598,853	60,682	4	29
Other Grants and Transfers	382,833	3,607	379,226	99	0.1
Finance costs including loan interest	10,000	7,037	2,963	30	0.1
Repayment of principal on domestic	81,572	47,713	33,859	42	1
Other payments	365,717	0	365,717	100	30
Total	**6,687,639**	**5,486,627**	**1,201,012**	**18**	

In overall, the County Government under spent on all recurrent votes to a tune of Kshs.1,201,012,000 or 18%.

From the above analysis, it is evident that more than 70% of the County Government's recurrent expenditure went to payment of salaries. The County Government's total expenditure on salaries of Kshs.3,829,510,000 is more than the total revenue collection

of Kshs.2,485,055,000 which implies that most of the County Government's funds go into payment of salaries at the expense of development projects.

In addition, the County Government allocated Kshs.365,717,000 for other payments which was not utilized by the end of the financial year. The funds could have been allocated to other deserving areas that would improve goods and services delivery to the public. This may be an indication of improper planning alternatively the management may need to re-think on its budget making process with a view to focusing on more priority areas.

16.3 County Executive

According to the 2014-2015 approved budget, the County Executive department was allocated a total budget of Kshs.1,211,316,741 comprising of Kshs.406,206,531 for development expenditure and Kshs.805,110,210 for recurrent expenditure. Under the development vote, the department utilized Kshs.79,206,531 (19% of the budget) with nil expenditure on purchase of minibuses and buses, purchase of exchanges and purchase of office equipment as shown below:

Budget Vote	Budget Amount (Kshs)	Actual Expenditure (Kshs)	Under-Absorption	%
Purchase of minibuses and buses	25,000,000	0	50,000,000	0
Purchase of Exchanges	10,000,000	0	10,000,000	0
Purchase of office equipment	60,000,000	0	60,000,000	0
Total	120,000,000		120,000,000	

The management has not explained why more than 81% of the development budget has not been utilized again an indication of poor budgeting formulation and execution.

16.4 Office of the Governor

According to the organizational structure of the County Government of Mombasa, the Office of the Governor falls under the department of County Executive. Out of the department's total recurrent budget of Kshs.805,110,210, the Office of the Governor was allocated Kshs.232,465,622 (about 29% of the department's total budget).

Below is the expenditure analysis of the office of the governor:

Budget Vote	Budget Amount	Actual Expenditure	Under-utilization	Over-Absorption	%
Basic Salaries	69,500,740	40,542,098	28,958,642		42
Allowances	45,702,654	28,525,112	17,177,542		38
Utilities	228,572	382,240		153,668	67
Telephone & postage	1,000,000	395,669	604,331		60
Travel and subsistence	40,150,000	23,642,143	16,507,857		41
Printing	4,000,000	3,854,900	145,100		4

Advertisement	22,000,000	18,066,235	3,933,765		18
Rent	3,667,706	2,667,706	1,000,000		27
Hire of transport	174,580	174,580	0		0
Catering services	10,000,000	8,505,454	1,494,546		15
Boards, Conferences	8,755,000	6,755,000	2,000,000		23
State hospitality	13,795,376	13,795,376	0		0
National Celebrations	2,000,000	1,133,750	866,250		43
Medals, Awards and Honors	1,252,445	1,252,445	0		0
Purchase of Coffins	225,000	225,000			0
Medical drugs	50,000	50,000			0
Purchase/Production of Photographic and Audio-Visual Materials	125,000	125,000			0
Purchase of Uniforms and Clothing - Staff	88,000	88,000			0
General Office Supplies (papers, pencils, forms, small office equipment etc)	2,345,940	1,745,940	600,000		26
Supplies and Accessories for Computers and Printers	945,608	945,608	0		0
Contracted Guards and Cleaning Services	2,570,000	570,000	2,000,000		78
Maintenance Expenses - Motor Vehicles	3,000,000	1,973,875	1,026,125		34
Maintenance of Civil Works Equipment	889,000	889,000	0		0
Total	**232,465,621**	**156,305,131**	**77,180,408**	**153,668**	

The following was noted:

i. The total budget under-utilization was Kshs.77,180,408 representing 10% of the department's recurrent budget. The under-utilization of the funds may have impacted negatively on the delivery of goods and services to the public of Mombasa County.

ii. The Office of the Governor spent Kshs.40,542,098 on salaries representing 42% of the recurrent allocation and Kshs.23,642,143 on travel and subsistence representing 15% of the recurrent budget. The County Government could be spending more on recurrent expenditure at the expense of development.

iii. The office also overspent on utilities by Kshs.153,668,000 or 67% and no approval from the members of County Assembly over the excess expenditure was availed for audit review.

16.5 Development Project for 2014/2015

Records availed for audit indicated that a total of Kshs.3,182,659,446 was allocated to twelve (12) departments during the year to implement development projects in the year 2014-2015 budget period which were supposed to be implemented within the financial year. However, the projects were not fully implemented with only 60 projects out of the 111 projects which represent 54% of the total planned projects having been completed as at 30 June 2015. The projects were behind schedule as detailed below:

Department	No of Budgeted Projects	Total Project Budget	Actual Expenditure	No of Projects completed	% Level of Implem entation
County Executive	*	*	*	*	
Public Service Board	*	*	*	*	
Finance and Economic Planning	8	245,035,135	160,766,695	7	88
Tourism	3	13,500,000	13,500,000	3	100
Education	11	275,697,244	47,841,671	2	18
Health	17	390,950,000	37,000,000	6	35
Water, Environment	16	139,300,000	*	8	50
Youth and Gender	3	7,000,000	6,100,000	3	100
Trade and Energy	9	314,857,319	39,097,046	5	56
County Planning, land and Housing	8	21,206,844	21,206,844	8	100
Transport and infrastructure	29	491,357,897	273,236,132	13	45
Agriculture and livestock	7	207,000,000	93,798,280	5	71
Total	**111**	**2,105,904,439**	**671,339,824**	**60**	

***No information provided**

Delayed implementation of projects deny the public crucial services. Further, due to inflationary factors the project costs may escalate in the near future forcing the County Government to spend more on the same projects.

Additional Observations

i. Although the Executive and Public Service Board were allocated Kshs.406,206,531 and Kshs.23,700,000 respectively for development, there was no information on the intended projects to be implemented and how the funds were spent. Thus funds may have been left idle at the expense of other deserving areas.

ii. According to the County Government's approved budget estimates for 2014/2015 financial year, allocation for development was Kshs.3,182,659,446 while the total budget of projects in the financial year was Kshs.2,105,904,439 leading to a variance of Kshs.1,076,755,007. It was not clear to which projects the County Government expected to allocate the balance of Kshs.1,076,755,007.

17.0 Audit of Development Projects

17.1 Project Inspection

From a sample of various projects verified, the audit revealed following observations:

17.2 Roads

According to the project implementation status report, it was observed that:

i. A total of Kshs.491,357,897 was allocated for various works on twenty nine (29) roads across the county.

ii. Out the twenty nine (29) roads earmarked for construction, thirteen (13) road projects worth Kshs.196,922,568 had been completed as at 30 June 2015.

iii. Sixteen (16) road projects with total expenditure of Kshs.160,991,062 had not been completed as at 30 June 2015.

iv. The Bomu access road with a consolidated cost to date of Kshs.4,582,000 had stalled due to a kiosk constructed in the middle of the road corridor. The management has indicated that they asked the local Member of County Assembly to assist in settling the matter but it was not clear if the road was constructed through a private land;

v. Access road linking Mikindani and Bangladeshi estates with a contract cost of Kshs.49,487,900 and where a total of Kshs.6,999,049 had been paid had stalled due to a court case by a local civil society organization which is demanding compensation for the affected persons. Although the County Government indicates that the project was proposed by locals, it casts doubts on the participation of locals and other stakeholders before a projected is initiated in the communities.

vi. Audit inspection revealed that all the sampled access road projects had no signposts indicating the projects were funded by the County Government. Although the management has indicated that signposts are erected on road projects funded by the County Government, none was seen on the inspected

road projects. It is not possible to confirm whether the projects had been implemented by County Government, CDF or National government agency.

17.3 Supply, installation, Testing and Commissioning and ICT Security Solution

The statement of receipts and payments reflects acquisition of assets balance of Kshs.1,452,025,000 for the year ended 30 June 2015. Included in this is expenditure of Kshs.96,988,253 in respect of purchase of ICT equipment. The audit review observed that the expenditure of Kshs.96,988,253 on purchase of purchase of ICT equipment included expenditure amounting to Kshs.69,559,999 on ICT project under the department of finance and economic planning.

According to the project status report, the department allocated Kshs.93,559,999 during the financial year 2014/2015 for supply, installation, testing and commissioning of ICT communication and security solution that was expected to be implemented in various operational locations of the County Government including head office Governor's office, Shimanzi, Uhuru na Kazi, Coast General hospital, fire station, inspectorate, public health, Mwembe clinic, Bima towers, Ganjoni health centre, Betting control, Kongowea market and Likoni sub-county offices. Therefore, total payments of Kshs.69,559,999 represented 74% of the project budget.

The following were observations noted during the inspection visit:

i. Out of the fourteen (14) locations where the system was to be implemented, the system was not operational in five (5) locations including public health office, Mwembe Clinic, Ganjoni Health centre, Kongowea market and Likoni.

ii. As at the time of inspection, more than 600 IP phone handsets of various series with a total cost of Kshs.7,317,600 were lying in the server room more than eleven (11) months after delivery in March 2015. Although the management has indicated that additional 400 IP phones were installed after the inspection and the remainder shall be installed in 2016/2017 financial year, it was not clear why the County Government ordered for equipment they were not ready to used. Public funds could go to waste if the project stalls and equipment may become obsolete due to change in technology.

17.4 Street Lighting

The statement of receipts and payments reflects acquisition of assets balance of Kshs.1,452,025,000 for the year ended 30 June 2015. Included in this is expenditure of Kshs.392,441,000 in respect of purchase of specialized plant, equipment and machinery. The audit review observed that the expenditure of Kshs.392,441,000 on purchase of specialized plant, equipment and machinery included expenditure amounting to Kshs.166,251,895 on street lighting project under the department of trade and investment, energy and industry. In addition, information available indicated that the County Government has signed an agreement with Kenya Power and Lighting Company for installation of L.E.D lights. However, the audit inspection revealed that the lights were not branded and it was difficult to confirm which lights were installed by County Government, KPLC or lights funded by CDFs.

17.5 Projects not Started

The project status report availed for audit verification revealed that the following projects had not commenced as at 30 June 2015:

No.	Project	Budgted Cost (Kshs)
1	Refurbishment of department of Agriculture office	10,00,000
2	Construction of water pans	20,000,000
3	Construction of slaughter house	44,000,000
4	Construction of sale yards	15,000,000
5	Maternity at Shikadabu hospital	11,700,000
6	Maternity theater at Likoni hospital	28,000,000
7	Purchase of generator for PRDH	5,000,000
	Total	**123,700,010**

Some of the reasons given for non-implementation of the projects include lack of land for the construction of water pans, slaughter house and sale yard. It is not clear how the project were planned and budgeted before land issues were sorted out. Other reasons given for delayed project implementation include the procurement process and donor partnership for projects under the department of health. Delayed implementation of projects may lead to cost escalations and affect service delivery to the public of Mombasa County.

In addition, the following projects which were planned to be implemented in 2014/2015 financial year were behind schedule and were commenced / delivered in the 2015/2016 financial year as detailed below:

No.	Project	Estimated Cost (Kshs)	Commencement / Delivery Date
1	Marimani hospital	53,609,245	30/10/2015
2	Vikwatani hospital	53,391,421	30/10/2015
3	Mtongwe hospital	56,391,421	2/11/2015
4	Shikadabu hospital	55,827,305	2/11/2015
5	Purchase of steam boiler for CGH	10,950,000	15/08/2015
6	Purchase of equipment for Port Reitz hospital	25,000,000	15/08/2015
7	Purchase of generator for PRDH	5,000,000	15/08/2015
8	Purchase of four wheel drive ambulances	37,000,000	
	Total	**297,169,392**	

The County Government may not be able to achieve its annual development goals where project implementation schedules are not adhered to. The benefits may not be realized by the intended beneficiaries within the expected time frame.

17.6 Stalled Projects

According to the project status report availed for audit verification two projects with total cost of Kshs.34,837,486 had stalled as shown below:

Project	Expenditure as at 30 June 2015 (Kshs)
Access road linking Bangladeshi and Mikindani	6,928,306
Chaani Elimu School	27,909,180
Total	**34,837,486**

This could imply poor project planning and monitoring. The citizens of Mombasa County may not realize the intended benefits from the projects due to incomplete status.

18.0 Revenue

18.1 Revenue Target

The statement of receipts and payments for the year ended 30 June 2015 indicated that the County Government collected Kshs.2,485,055,000 from local sources compared to Kshs.2,179,094,000 collected in 2013/2014 financial year representing 14% rise in revenue collection. However, according to the 2014/2015 approved budget estimates, the County Government expected to collect Kshs.5,121,608,000 from local sources which implies the County Government had a deficit 51.5% of the targeted revenue.

This is an indication of cases of possible revenue leakages, inefficient revenue collection systems or unrealistic targets. The County Government may not fully finance its budget activities which may adversely affect service delivery to residents of Mombasa County.

18.2 Uncollected Revenue on Shipping Vessels

According to the County Government of Mombasa's Finance bill 2014/2015, the County Government expected to charge shipping vessels for various services including export permit, import clearance and ship inspection. However, there was no evidence that the County Government collected any revenue from this source. Although the management has attributed the non-collection to lack of legislation, it was not clear how the County Government expected to collect revenue which is collected by various National government agencies and parastatals. The action could lead to conflict with Chapter 209 (5) of Constitution of Kenya which require the taxation and other revenue-raising powers of a county not be exercised in a way that prejudices national economic policies, economic activities across county boundaries or the national mobility of goods, services, capital or labour.

This may imply that the County Government's budget was based on unrealistic revenue targets which may affect implementation of the budget activities.

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

15 September 2016