

REPORT OF THE AUDITOR-GENERAL ON NAIROBI CITY COUNTY ASSEMBLY FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Nairobi City County Assembly set out on pages 1 to 34, which comprise the statement of financial assets and liabilities as at 30 June 2017, and the statement of receipts and payments, statement of cash flows, statements of comparison of budget and actual amounts recurrent, development and combined for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of Nairobi City County Assembly as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and do not comply with the Public Finance Management Act, 2012.

In addition, as required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that public money has not been applied lawfully and in an effective way.

Basis for Adverse Opinion

1. Accuracy of the Financial Statements

1.1 Non-Disclosure of Non-Current Assets Balances

The summary statement of fixed assets at Annex 4 to the financial statements reflects total fixed assets balance of Kshs.107,533,555.75 as at 30 June, 2017. The amount, however, relates only to the total fixed assets acquired during the financial year under review. The statement does not reflect the balance of assets acquired in prior years contrary to the requirements of the reporting format issued by the Public Sector Accounting Standard Board. Further, management did not provide fixed assets register for audit verification. Consequently, the accuracy of the summary statement of fixed assets balance of Kshs.107,533,555.75 as at 30 June 2017 cannot be confirmed.

1.2 Un accounted for Receipts

The statement of receipts and payments reflects exchequer release of Kshs.1,447,004,403 which differ with an amount of Kshs.1,446,104,403 indicated in the supporting schedules, resulting in an unexplained difference of Kshs.900,000.

Further, the County Assembly had inter-accounts borrowing totalling Kshs.44,034,191 from car loan, mortgage and other receipts during the year under review as analyzed below:

Date	Details	Amount (Kshs.)
14/07/2016	Transfer	5,000,000
8/8/2017	Transfer	4,000,000
29/09/2016	Transfer	5,000,000
3/9/2016	Transfer	3,000,000
7/10/2016	Transfer	9,000,000
12/1/2017	Income- Nairobi County Assembly	2,429,647
14/03/2017	Transfer	3,000,000
3/4/2017	Pioneer Insurance	7,604,544
26/05/2017	Transfer	5,000,000
	Total	<u>44,034,191</u>

However, the legal basis for transferring the funds to the County Assembly's recurrent account has not been explained or supported with documentary evidence. In addition, receipt from Pioneer Insurance of Kshs.7,604,544 has not been explained or accounted for in the financial statements.

In the circumstances, the accuracy of transfers from the County Treasury totaling Kshs.1,447,004,403 for the year ended 30 June 2017 cannot be confirmed .

1.3 Compensation of Employees

The statement of receipts and payments reflects an amount of Kshs.780,476,852 in respect of compensation of employees for the year ended 30 June 2017. The amount includes pensions and other social security contributions of Kshs.134,593,617.91 out of which Kshs.107,892,803.22 was reported to have been paid to Lap Fund by 30 June 2017. However, an amount of Kshs.70,353,360 out of the total of Kshs.107,892,803.22 was not supported by payment vouchers. Consequently, the accuracy of compensation of employees expenditure of Kshs.780,476,852 for the year ended 30 June 2017 can not be confirmed.

1.4 Casting Error

The statement of receipts and payments reflects total payments of Kshs.1,492,398,495. However, total payments cast to Kshs.1,492,398,195 resulting in a casting error of

Kshs.300. In the circumstances, the accuracy of the financial statements for the year ended 30 June 2017 can not be confirmed.

2. Cash and Cash Equivalents

The statement of financial assets and liabilities reflects cash and cash equivalents balance of Kshs.64,561,610 as at 30 June 2017. However, a review of the bank reconciliation statements revealed that the balances reported for each bank account were balances as per the bank statements instead of the reconciled cashbook balance. In addition, the bank reconciliation statement for the month of June 2017 reflects un-presented cheques totalling Kshs.88,722,677.87 and payments in the bank statements not in the cash book totalling Kshs.157,908,034.60. However, the list of the reconciling items for all the months were not dated and lacked unique identification numbers such as cheque number, transaction number and payment voucher number and therefore could not be traced in either the bank statement or the cashbook.

Examination of the cashbook further revealed that the un-presented cheques of Kshs.88,722,677.87 shown as being in the cashbook but not in the bank statement were not traceable in the cashbook. In addition, the co-operative account bank statement-recurrent, reflects several contra entries amounting to Kshs.98,370,321 whose reversals could not be traced in the debit side of the bank statement. The same transactions could also not be traced in the cashbook and those traced had different narrations and therefore, the cashbook and the bank statement could not correlate. No clear explanations have been given for these anomalies.

Consequently, the accuracy of cash and cash equivalents balance of Kshs.64,561,610 as at 30 June 2017 can not be confirmed.

3. Use of Goods and Services

3.1 Insurance Costs

As disclosed in Note 5 to the financial statements, use of goods and services total expenditure of Kshs.604,088,961 includes insurance costs of Kshs.98,398,001. However, an amount of Kshs.25,452,216.99 in respect to insurance has been double counted in the ledger. Further the ledger under use of goods and services reflects an amount of Kshs.98,189,001 for insurance while the financial statements reflect Kshs.98,398,001 leading to unexplained variance of Kshs.209,000. Consequently, the accuracy of insurance cost of Kshs.98,398,001 for the year ended 30 June 2017 can not be confirmed.

3.2 Misclassification of Expenditure

Note 5 to the financial statements under use of goods and services reflects other operating expenses of Kshs.166,713,614 comprising the following items:

Item	Amount (Kshs)
Personal Allowance	162,164,399.05
Fuel, Oil and Lubricants	1,924,214
Uniforms	2,615,232
un explained amount	9,768.95
Total	166,713,614.00

However, the same expenses have been accounted for under compensation of employees, uniforms and fuel, and oil and lubricants. Further the reported figure has an unexplained suspense of Kshs.9,768.95. The financial statements presentation is not fully compliant with the approved budget and consequently the presentation and disclosure of other operating expenses cannot be confirmed.

3.3 Omitted Expenditure

Note 5 to the financial statements on use of goods and services reflects nil expenditure on routine maintenance. However, the ledger and trial balance provided reflects an amount of Kshs.3,238,284 for the items. No explanation has been provided for the omission. In the circumstances, the accuracy of nil expenditure under routine maintenance of vehicles and other transport equipment cannot be confirmed

3.4 Unexplained Variance on Office and General Supplies and Services

Note 5 to the financial statements reflects under office and general supplies and services expenditure of Kshs.13,294,886. However, the ledger reflects expenditure amounting to Kshs.43,197,828 leading to unexplained variance of Kshs.29,902,942. Consequently, the accuracy of office and general supplies and services amount of Kshs.13,294,886 can not be confirmed.

4. Un-accounted for Provisional Sums

Provisional sums totalling Kshs.480,000 paid in respect of two contracts during the year under review had not been accounted for as at 30 June 2017 as follows;

Contract No.	Description of Work	Payment Voucher	Un-accounted Provisional Sum
NCA/CASB/ARCH/M/05/2017	Proposed renovations to existing kitchen premises	960	250,000
NCA/CASB/ARCH/M/05/2017	Proposed renovations to existing kitchen premises	980	125,000
NCA/CASB/ARCH/M/05/2017	Proposed Re-roofing of		105,000

	existing covered shed at County Assembly Catering Unit		
Total			480,000

Consequently the propriety of Kshs. 480,000 paid as provisional sums cannot be confirmed.

5. Rentals of Produced Assets

Note 5 to the financial statements reflects an amount of Kshs.19,782,000 on rentals of produced assets. Included in this figure is an amount of Kshs.9,100,000,000 for speaker's house rent arrears for the period of July 2014 to August 2016 (26 months) at a rate of Kshs.350,000 per month. However, the Salaries and Remuneration Commission (SRC) Circular reference number SRC/TS/CGOVT/3/61 dated 24 October 2016 limits the speaker's house rent to Kshs. 150,000 per month. The County Assembly therefore overpaid for the speaker's house by Kshs. 5,200,000.

6. Pending Accounts Payable

Note 18.1 to the financial statements reflects pending accounts payable balance of Kshs.79,949,597.75. However, schedules provided to support the figures reflect Kshs.182,614,652.75 resulting in unexplained difference of Kshs.102,665,055. Further, included in the pending accounts payable schedule is Kshs.130,262,405.60 relating to acquisition of assets. In addition, the pending bills balance includes unanalyzed withholding tax of Kshs.1,907,057. In the circumstances, the accuracy of pending bills balance of Kshs.79,949,597.75 as at 30 June 2017 can not be confirmed.

7. Maintenance of Updated Retention Register and Release of Retention Money

Note 15 to the financial statements reflects deposits and retention money totalling Kshs.9,693,566.20. During the year under review, however, the County Assembly did not maintain an updated retention money register. All retentions deducted from contracts during the year were not recorded/posted in the register. Further, the County Assembly was not depositing the retained amounts in the deposits accounts. Release of retention money could also not be confirmed in the register. Consequently, the accuracy of the balance of Kshs.9,693,566.20 cannot be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Nairobi City County Assembly in accordance with ISSAI 30 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 adverse opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Adverse Opinion section, I have determined that there are no Key Audit Matters to communicate in my report.

Other Matter

1. Audit Committee Meetings

Although the Nairobi City County Assembly had an audit committee in place, no evidence was presented to indicate that the committee met and conducted business during the year under review. The County Assembly was, therefore, in breach of regulation 172 of the Public Finance Management (National Government) Regulations, 2015 which require the audit committee to meet at least once in every three months. Management has not provided explanations for this anomaly.

2. Budget and Budgetary Control

2.1 Under- Expenditure

The Nairobi City County Assembly had an approved budget of Kshs. 1,702,057,083. However examination of the IFMIS account analysis report revealed that the County Assembly did not adhere to the budget and budgetary control under eleven (11) line items with under expenditure amounting to Kshs.157,773,127.25 as analyzed below:

Item	Budgeted Amount (Kshs.)	Expenditure (Kshs.)	Under Expenditure (Kshs.)
Communication, supplies and services	13,162,684.00	3,847,652.00	9,315,032.00
Foreign travel and subsistence	77,522,900	42,270,716	35,252,184.00
Training expenses	32,188,000	24,788,324	7,399,676.00
Routine Maintenance -Vehicles and other transport Equipment	2,203,861.00	1,931,764	272,097.00
Routine Maintenance -Other Assets	4,407,722.00	1,306,520	3,101,202.00
Fuel, oil and lubricants	1,979,002.00	1,924,214	54,788.00
Refurbishment of Buildings	146,422,579	64,335,728	82,086,850.75
Purchase of Office Furniture and General Equipment	44,260,000	43,197,828	1,062,172.50
Purchase of ICT Equipment, Software and Other ICAT Assets	18,370,000	0	18,370,000.00
Basic Salaries of permanent Employees	321,007,010	320,154,285	852,725.00
Compulsory national social security schemes	12,400	6,000	6,400.00
Total	661,536,158.00		157,773,127.25

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The under expenditure is an indication of funds not utilized fully and approved programs not implemented.

2.2 Over-Expenditure

Further examination of the IFMIS account analysis report revealed that the County Assembly did not adhere to the budget and budgetary control under eleven (11) line items with over expenditure amounting to Kshs.113,973,281 as analyzed below:

Item	Budgeted Amount (Kshs.)	Expenditure (Kshs.)	Over Expenditure (Kshs.)
Domestic Travel and subsistence	153,869,910.00	156,555,208.00	2,685,298.00
Printing, advertisement and information supplies	-	9,919,595	9,919,595.00
Hospitality supplies and services	16,229,167.00	35,314,228	19,085,061.00
Insurance costs	66,094,242.00	72,736,784	6,642,542.39
Office and general supplies and services	8,676,393.00	43,197,828	34,521,434.57
Rentals of Produced Assets	15,555,000.00	19,782,000	4,227,000.00
Basic Salaries of Temporary Employees	72,647,000	72,687,700	40,700.00
Personal Allowances paid as part of salary	225,361,061	243,848,729	18,487,668.00
Personal Allowances paid as reimbursements	0	7,752,000	7,752,000.00
Pension and other Social Security contributions	125,416,155	134,593,617	9,177,462.00
Other Personnel Payment	0	1,434,520	1,434,520.00
Total	683,848,928	797,822,209	113,973,281

The over expenditure is an indication that some expenditure items might have been over funded at the expense of others.

2.3 Un approved Budget Re-allocations

The County Assembly sitting allowances budget for the financial year 2016/2017 amounted to Kshs.88,047,217. However, the actual expenditure on sitting allowance for

the year ended 30 June 2017 amounted to Kshs. 100,373,827 resulting to an over expenditure of Kshs. 12,579,603. The over- expenditure on the item was charged against various items voted in the budget as detailed below:

Item	Vote Code	Amount (Kshs.)
Basic Salary	501-2110112	1,050,556
Basic Salary	201-2110112	571,642
Commuter Allowance	501-2110314	343,074
Commuter Allowance	501-211314	24,577
Extraneous Allowance	501-2110315	23,333
Responsibility Allowance	201-2110312	135,000
Overtime	501-2110304	33,319
Non Practicing Allowance	501-2110318	1,546
Top up Allowance	5012111310	2,184,000
House Allowance	501-2211301	5,906,666
	501-2120101	300
Rental Allowance	501-2120301	424,391
Gratuity	201-2710115	1,474,300
Car Maintenance Allowance	201-2211325	406,899
TOTAL		12,579,603

Consequently, the County Assembly did not adhere to the budget and budgetary control and was in breach of the law.

Responsibility of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standard (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.

In preparing the financial statements, management is responsible for assessing the County Assembly's ability to continue sustaining services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the management either intends to liquidate the County Assembly or to cease operations, or have no realistic alternative but to do so.

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.

Those charged with governance are responsible for overseeing the County Assembly's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

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 of Kenya. 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 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.

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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, and for the purpose of giving an assurance on the effectiveness of the County Assembly's 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 going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the County Assembly's ability to continue offering services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the County Assembly to cease to continue offering 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 Assembly to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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



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

Nairobi

16 July 2018