

REPORT OF THE AUDITOR-GENERAL ON NAIROBI CITY COUNTY ASSEMBLY FOR THE YEAR ENDED 30 JUNE 2018

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 33, which comprise the statement of financial assets and liabilities as at 30 June 2018, and the statement of receipts and payments, statement of cash flows and 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 June 30, 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and do not comply with the Public Finance Management Act, 2012.

Basis for Adverse Opinion

1. Trial Balance

The management did not provide a trial balance to support figures reflected in the financial statements for 2017/2018 financial year. In addition, the financial statements presented do not support all the payments and activities undertaken. As a result, the completeness and accuracy of the financial statements for the year ended 30 June 2018 cannot be confirmed.

2. Payments Outside IFMIS

Payments totalling Kshs.211,351,680 were made outside IFMIS during the financial year 2017/2018 as tabulated below:

	Final Approved Estimate (Net)	Actual Expenditure (As reported in IFMIS)	Expenditure as Reported in the Financial Statements	Variances Between IFMIS and Financial Statements
Component	Kshs.	Kshs.	Kshs.	Kshs.

Compensation of Employees	656,794,715	548,470,471	641,042,692	92,572,221
Use of Goods and Services	658,747,496	429,125,723	572,720,876	143,595,153
Other Grants and Transfers	4,900,000	4,900,000	0	(4,900,000)
Social Security Benefits	49,359,111	28,948,869	48,943,862	19,994,993
Acquisition of Assets	417,816,650	201,578,900	161,584,215	(39,994,685)
Finance Costs, including Loan Interest	0	0	83,999	83,999
Total	1,787,617,972	1,213,023,964	1,424,375,644	211,351,680

No reasons have given for paying outside the IFMIS system.

3. Cash and Cash Equivalents

3.1 Board of Survey Report

The statement of financial assets and liabilities as at 30 June ,2018 reflects cash and cash equivalents balance of Kshs.10, 985,207 and as disclosed in Note 13 to the financial statements. However, the balance has not been supported by a Board of Survey Report. No satisfactory explanation has been provided for this omission.

3.2 Bank Reconciliations

The Assembly did not prepare bank reconciliations for the five bank accounts disclosed in Note 13A to the financial statements contrary to regulation 90 of the Public Finance Management (County Government) Regulations, 2015.

As a result of the omissions indicated above, the accuracy of cash and cash equivalents balance of Kshs. 10,985,207 cannot be confirmed.

4. Imprests

4.1 Outstanding Imprests

Disclosed in Note 14 to the financial statements is a balance of Kshs.117,830,865 against outstanding imprests. However, the IFMIS ledger reflects a balance of

Kshs.206,907,033 against the same item resulting in a difference of Kshs. 89,076,168 which has not been reconciled or explained.

4.2 Irregular Payment of Imprests

The Assembly issued imprests and spent an amount of Kshs.401,500 on transport and night out refunds to Members of County Assembly who travelled for a funeral in Mumias, despite the relevant expenditure not chargeable to public funds.

5. Fixed Asset Register

The Assembly did not maintain during the year under review a fixed assets register. The disclosure under Annex 4 to the financial statements is therefore not supported by a fixed assets register. Consequently, it has not been possible to ascertain the existence, location, completeness and accuracy of additional assets in the year 2017/2018 of Kshs.161, 584,215 or the balance of Kshs.279,117,771 relating to the historical costs of the assets as at 30 June 2018 as disclosed.

6. Pending Bills

Disclosed under Note 13 to the financial statements are pending bills totalling Kshs.31, 865,711. However, the pending bills balance has not been supported by authentic and verifiable source documents and supporting schedules clearly indicating type of supply, contracted amount, amount paid to date and outstanding balance as at year end. As a result, the validity and accuracy of the pending bills balance of Kshs. 31,865,711 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 judgment, are of most significance in the audit of the financial statements. Except for the matters discussed in the Basis for Adverse Opinion and Basis for Conclusions on lawfulness and effectiveness in use of public resources and effectiveness of internal controls, risk management and governance sections of my report, I have determined that there are no key audit matters to communicate in my report.

Other Matter

1.0 Budget Performance

During the financial year ended 30 June 2018, the Assembly had an approved budget of Kshs.1,727,660,782 comprising of recurrent vote of Kshs.1,309,844,132 and development vote of Kshs.417,816,650. The summary statement of appropriation recurrent and development; combined reflects overall expenditure totalling Kshs.483,285,139, equivalent to 72 % absorption rate but overall under-expenditure of 28% as tabulated below:

	2017/2018 Final Budget Figures	2017/2018 Actual Receipts / Expenditure	Variance	% of the Variance
Components	Kshs.	Kshs.		%
Revenue				
Transfers from County Treasury/Exchequer Release	1,787,617,973	1,451,777,423	335,840,550	19%
Expenditure				
Compensation of Employees	645,992,568	641,042,692	4,949,876	1%
Use of Goods and Services	596,126,584	572,720,876	23,405,708	4%
Social Security Benefits	67,724,980	48,943,862	18,781,118	28%
Acquisition of assets	417,816,650	161,584,215	256,232,435	61%
Finance costs	-	83,999	(83,999)	100%
Total Expenditure	1,727,660,782	1,244,375,643	483,285,139	28%

An analysis also indicates that the development funds were not fully utilized as planned resulting in under expenditure of Kshs.256,232,435 or 61% of the budget.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters discussed in the Basis for Adverse Opinion and Basis for Conclusions on lawfulness and effectiveness in use of public resources and effectiveness of internal controls, risk management and governance sections of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Compensation of Employees

The statement of receipts and payments for the year ended 30 June 2018 reflects total expenditure of Kshs.1,244,375,643. The expenditure on compensation of employees of Kshs.641,042,692 represents about 44% of total receipts of Kshs.1,451,777,423 during the year under review. The expenditure, therefore, exceeded the set limit of 35% contrary to regulation 25 (1) (b) of the Public Finance Management (County Governments) Regulations, 2015 which provides that County Government expenditure on wages and benefits for public officers should not exceed 35% of the County Assembly total receipts.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters discussed in the Basis for Adverse Opinion and Basis for Conclusions on lawfulness and effectiveness in use of public resources and effectiveness of internal controls, risk management and governance sections of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

1. Segregation of Duties

Although, Accounts Department of the Assembly has thirteen members of staff, only one officer performs duties of disbursing funds, making entries in the cashbook, reconciliation and validation of payments in the IFMIS system contrary to regulation 110(2a) of the Public Finance Management (County Government) Regulations, 2015.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and Those Charged with Governance

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

In preparing the financial statements, management is responsible for assessing the ability of the Nairobi City County Assembly to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends 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.

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

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities,

financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them, and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7 (1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of noncompliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the 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 ability of the Nairobi City County Assembly to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit

evidence obtained up to the date of my audit report. However, future events or conditions may cause the Nairobi City County Assembly to cease sustaining its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Nairobi City County Assembly to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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



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

Nairobi

15 January 2019