

# **REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF NAIROBI CITY FOR THE YEAR ENDED 30 JUNE, 2019**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of the County Assembly of Nairobi City set out on pages 1 to 26, which comprise the statement of financial assets and liabilities as at 30 June, 2019, and the statement of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts: recurrent and development combined for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the County Assembly of Nairobi City as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis), and comply with the Public Finance Management Act, 2012 and County Government Act, 2012.

### **Basis for Qualified Opinion**

#### **1.0 Inaccurate Statement of Cash Flows**

The statement of cash flows reflects negative adjustments during the year of Kshs.10,985,207. This differs with the negative change in imprest and advances of Kshs.48,329,602 and negative change in accounts payables of Kshs.36,650,717 in the statement of financial assets resulting to unreconciled negative variance of Kshs.73,995,112.

Consequently, the accuracy of the statement of cash flow as presented and the cash and cash equivalents balance cannot be confirmed.

#### **2.0 Inaccurate Fund Balance Brought Forward**

The statement of financial assets and liabilities and as disclosed under Note 15 to the financial statements reflects brought forward fund balance amount of Kshs.10,985,207. This differs with the balance carried forward from the financial year 2017/2018 amount of Kshs.92,981,220 resulting to an unreconciled variance of Kshs.81,996,013.

In the circumstances, the accuracy and completeness of the statement of financial assets and liabilities could not be confirmed.

### **3.0 Unsupported Prior Year Adjustments**

The statement of financial assets and liabilities includes a balance of KShs.155,991,125 and as disclosed under Note 17 to the financial statement also reflects prior year adjustments which have been explained as adjustments on bank account balances, receivables and payables. However, the balance was not supported with documentation indicating how the change from KShs.27,401,780 in the previous year to KShs.155,991,125 in the year under review was arrived at.

Consequently, the accuracy and completeness of the prior year adjustments for the year under review could not be confirmed.

### **4.0 Over Drawn Bank Accounts**

The statement of financial assets and liabilities reflects cash and cash equivalents amount of Kshs.9,074,491. However, review of the IFMIS bank reconciliation statements attached in the financial statements indicated that the recurrent, development and deposit bank accounts held at the Central Bank of Kenya had an overdraft of Kshs.91,669,794.70, Kshs.5,131,820.50 and Kshs.4,034,718.05 respectively. Management did not provide approvals for the overdrafts for audit verification. This is contrary to the Section 119(4) of the Public Finance Management Act, 2012 which provides that an Accounting Officer for a County Government entity shall not cause a bank account of the entity to be overdrawn beyond the limit authorized by the County Treasury or a Board of a County Government entity.

### **5.0 Pending Bills**

Other important disclosures to the financial statements reflects pending bills amount of Kshs.13,426,583.85 made up of pending accounts payables, pending staff payables and other pending payables of Kshs.13,352,229.05, Kshs.56,400.00 and Kshs.17,954.80 under Notes 1, 2 and 3. However, the supporting Annexures 1, 2 and 3 did not contain the breakdown of the pending bills.

Consequently, the accuracy and completeness of pending payables of Kshs.13,426,583.85 could not be confirmed.

### **6.0 Unsupported Expenditure on Sitting Allowances**

The statement of receipts and payments reflects compensation of employees' expenditure amount of Kshs.648,349,325 which includes personal allowances paid as part of salary of Kshs.238,832,977. Examination of records revealed that a total of Kshs.81,525,600 was paid as sitting allowances to Members of the County Assembly during the year under review. However, the schedule of meetings supported with attendance registers were not provided for audit review.

Consequently, the accuracy, completeness and validity of the expenditure of Kshs.81,525,600 incurred on sitting allowances could not be confirmed.

## **7.0 Unsupported Expenditure on Rental of Ward Offices**

The statement of receipts and payments reflects use of goods and services expenditure amount of Kshs.570,288,835 which includes rentals of produced assets amount of Kshs.14,758,356. However, examination of records revealed that the payments were not supported by signed lease agreements between the County Assembly and the landlords.

In the circumstances, it was not clear whether the expenditure of Kshs.12,347,000 was a proper charge to public funds.

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

## **Key Audit Matters**

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

## **Other matter**

### **1.0. Under-Utilization of Budgeted Funds**

During the financial year ended 30 June, 2019, the County Assembly had an approved final budget of Kshs.1,422,241,700 comprising of recurrent vote amount of Kshs.1,386,671,700 and Development Vote amount of Kshs.35,570,000. The summary statement of appropriation recurrent and development combined reflects an overall under expenditure amount of Kshs.124,867,477, equivalent to 91 % absorption rate.

The underutilization of the development budget affected the planned activities and may have impacted negatively on service delivery to the public.

### **2.0. Prior Year Matters**

In the audit report of the previous year, several issues were raised under the report on financial statements, report on lawfulness and effectiveness in use of public resources, and report on effectiveness of internal controls, risk management and governance. However, Management has not resolved the issues or disclosed all the prior year matters as provided by the Public Sector Accounting Standards Board template and The National Treasury's Circular Ref: PSASB/1/12 Vol.1(44) of 25 June 2019.

The issues remain unresolved as the Senate and the County Assembly have not discussed them.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### **Conclusion**

As required by Article 229(6) of the Constitution, based on the procedures performed, except for the matter described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

### **Basis for conclusion**

#### **1.0 Irregular Payment of Expenditure Claims**

The statement of receipts and payments reflects use of goods and services expenditure amount of Kshs.570,288,835 which includes domestic travel and subsistence allowances of Kshs.231,156,824. Examination of records revealed that the County Assembly made payments amounting to Kshs.15,633,105 to various members of staff through refunds of expenditure spent on domestic travel and subsistence allowances. This was contrary to the provisions of Regulations 91(2) and 93(4) of the Public Finance Management (County Governments) Regulations, 2015, on management of temporary imprest, which requires employees to make formal application for imprest before travel. There was no explanation why the concerned staff did not apply for the imprest before undertaking various journeys.

Consequently, Management was in breach of the regulations.

#### **2.0 Non-Compliance with the One Third of Basic Salary Rule**

During the year ended 30 June, 2019, six (6) employees earned a net salary of less than a third (1/3) of the basic salary. This was contrary to Section C.1(3) of the Public Service Commission (PSC) Human Resource Policy, 2016 which stipulates that Public Officers should not over-commit their salaries beyond two thirds (2/3) of their basic salaries. Management has not given explanation for failure to comply with the policy.

In the circumstances, the County contravened Section C.1(3) of the Public Service Commission (PSC) Human Resource Policies, 2016 and this may expose the staff to pecuniary embarrassment.

My responsibility is to express a conclusion based on the review. The review was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the review so as to obtain limited assurance as to 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 procedures performed, except for the matter described in the Basis for Qualified Opinion, Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources and Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

### **Basis for Conclusion**

#### **Outstanding Imprest**

The statement of financial assets and liabilities reflect accounts receivables balance of Kshs.166,347,527 as at 30 June, 2019. However, the imprest register maintained by the County Assembly does not reflect the date the imprest was given, the purpose of the imprest, amount surrendered and balance outstanding.

Consequently, due to the weak internal controls over imprest management, recoverability of the imprests overdue and determination of interest chargeable on the outstanding imprests may be difficult.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standard requires that I plan and perform the review so as to obtain limited assurance as to whether effective processes and systems of internal control, risk management and governance were maintained in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

### **Responsibilities of Management and those Charged with Governance**

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

In preparing the financial statements, Management is responsible for assessing the ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the

Management either intends to dissolve 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.

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 money is applied in an effective manner.

Those charged with governance are responsible for overseeing the County Assembly's financial reporting process, reviewing the effectiveness of how Management 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 overall 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 review is planned and performed to express a conclusion with limited assurance as to 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 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review 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 non-compliance. 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 judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the County Assembly to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the County 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.



**Nancy Gathungu**  
**AUDITOR-GENERAL**

**Nairobi**

**04 May, 2021**