

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

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of Nairobi City County Executive set out on pages 7 to 48, which comprise the statement of assets as at 30 June 2017, and the statement of receipts and payments, statements of cash flows and summary statements of appropriation: 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 do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

In addition, as required by Article 229(6) of the Constitution, I have not been able to obtain sufficient appropriate audit evidence to confirm that public money has been applied lawfully and in an effective way.

Basis for Disclaimer of Opinion

1. Inaccuracies in the Financial Statements

1.1. Discrepancy between Ledger and Financial Statements

The statement of receipts and payments reflects payments totalling Kshs.24,962,045,715. However, eighteen expenditure items amounting to Kshs.7,925,600,412 included in the financial statements differs with the related ledger figures totalling Kshs.6,105,945,419 for the items. The resulting in a difference of Kshs.1,819,654,993 between the ledger and the financial statements has not been reconciled or explained. In the circumstances, the accuracy of reported expenditure of Kshs.24,962,045,715 cannot be confirmed.

1.2. Variations between Balances in the Statement of Receipts and Payments and the Actual Payments - Acquisition of Assets

The statement of receipts and payments reflects expenditure totalling Kshs.1,762,711,478 in respect of acquisition of assets. However, a comparison of the balances presented against the IFMIS payments report revealed material variances. Further verification of payments in the IFMIS payments report against the bank statements revealed that most of the payments were not reflected in the bank statements. The variations are as analyzed below:

Item	Figure as per Financial	Figure as per IFMIS payment (Kshs)	Payments Verified in Bank	Variance (Financial Statements Vs Verified Payments)
------	-------------------------	------------------------------------	---------------------------	--

	Statements (Kshs.)		Statements (Kshs)	in Bank Statements) (Kshs.)
Construction of Buildings	67,693,935	165,133,835	35,413,575	32,280,360
Refurbishment of Buildings	72,838,053	26,328,742	7,053,867	65,784,186
Construction of Roads	596,741,989	246,011,460	24,426,003	572,315,986
Construction and Civil Works	499,729,375	192,956,311	6,300,000	493,429,375
Overhaul and Refurbishment of Construction and Civil Works	148,214,401	60,617,776	0	148,214,401
Purchase of Specialized Plant, Equipment and Machinery	190,981,271	88,080,008	0	190,981,271
Total				1,503,005,579

In view of the above variances, the accuracy of acquisition of assets expenditure of Kshs.1,762,711,478 for the year ended 30 June 2017 cannot be confirmed.

1.3. Unauthorized Budgetary Reallocation

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.6,462,971,486 against use of goods and services for the year ended 30 June 2017. Included in this amount is a reallocation of Kshs.225,557,043 without the formal approval of the County Assembly, hence unauthorized expenditure. Consequently, the validity of the unauthorized expenditure amounting to Kshs.225,557,043 cannot be confirmed.

1.4. Un-Supported Balance for Acquisition of Assets

Although Note 10 to the financial statements reflects expenditure totalling to Kshs.1,762,711,478 in respect of acquisition of assets, only an amount of Kshs.61,174,422 was verified as paid. There was no documentary evidence of the balance of Kshs.1,701,537,056 as having been paid. Verification of the expenditure items revealed that the figures were extracted from the trial balance and the appropriation accounts. The breakdown of the figures as per the individual ledger transactions was however not provided to support the consolidated amounts. The accuracy of the expenditure totalling Kshs.1,762,711,478 on acquisition of assets cannot therefore be confirmed.

2. Pending Accounts Receivables

Records reviewed indicate that accounts receivables as at 30 June 2017 amounted to Kshs.307,697,852,532, an increase of Kshs.98,689,356,423 (47%) from Kshs.209,008,496,109 reported in 2015/2016. Contrary to the guidelines issued by the Public Sector Accounting Standards Board, no disclosures have been made in the notes to

the financial statements for the accounts receivables balance of Kshs.307,697,852,532 as at 30 June 2017.

2.1. Outstanding Rates

Outstanding rates as at 30 June 2017 amounted to Kshs.305,367,800,145, equivalent to 99% of the total outstanding accounts receivables, which is an increase of Kshs.97,780,672,110 (47%) from Kshs.207,587,128,035 reported in 2015/2016 financial year. The significant increase in outstanding receivables and in particular outstanding rates is an indication that the County Government has not put adequate measures in place to collect and clear the outstanding rates. Further, supporting schedules for wayleave fees balance of Kshs.752,140,672 were not presented for audit review while a 100% movement of urban development debtors from Kshs.79,469,229 as at 30 June 2016 to a nil balance as at 30 June 2017 was not explained. As noted in the previous year, the likelihood of collecting the outstanding rates from the defaulters appears to be too low. This is indicative of significant impairment on the outstanding rates balance of Kshs. 305,367,800,145 as of 30 June, 2017. Further, ageing analysis for the outstanding rates balance has not been made available for audit review.

2.2. Outstanding Imprests

The statement of assets reflects accounts receivable balance on account of outstanding imprests of Kshs.74,147,605 as at 30 June 2017 (2015/2016 Kshs.25,199,363). However, the outstanding imprests were not supported by an updated imprest register. Consequently, the completeness and accuracy of the imprests balance of Kshs. 74,147,605 as of 30 June 2017 cannot be confirmed.

2.3. Loading Zones

Outstanding loading zones balance amounted to Kshs.559,080,800 as at 30 June 2017 representing an increase of Kshs.95,180,000 from the previous year balance of Kshs.463,900,800. Further, included in vehicle parking fees of Kshs.2,025,471,174 disclosed in Note 4 to the financial statements is revenue from loading zones of Kshs.268,384,100 while the schedule presented has a figure of Kshs.223,140,000. The resulting to difference of Kshs.45,244,100 has not been explained. In addition, no explanation has been provided for the perennial non-collection of loading zone debts.

3. Cash and Cash equivalents

The statement of assets reflects overdrawn bank balances of Kshs.499,972,132 as at 30 June 2017 and as disclosed in Note 14A to the financial statements. This represents a decrease of Kshs.776,902,731 from the previous year's negative balance of Kshs.1,276,874,863. However, examination of individual bank balances revealed the following anomalies:

3.1. Inaccurate Balances

- (i) Note 14A to the financial statements reflects Central Bank of Kenya-Revenue A/C No: 1000171863 balance of Kshs.191,921,490 but the respective cash book reflects a balance of Kshs.259,528,989 resulting in unreconciled difference of Kshs.67,607,499.

- (ii) Further, the following balances reflected in the Note to the financial statements are the bank statement balances instead of the cash book balances resulting in unreconciled differences as detailed below:

Name of Bank, Account No. & currency	Cashbook Balance (Kshs)	Reported Balances (Kshs)	Difference (Kshs.)
Cooperative Bank Imprest Account-01141232396601	(4,119,777,707)	(891,961,441)	(3,227,816,266)
Cooperative Bank Solid Waste Management Account-01141232396606	(169,059,799)	1,600,305	(167,459,494)
Pumwani Hospital Account - National Bank Account No.102100895400	7,829,103	9,967,662	(2,138,559)
Mama Lucy Kibaki Hospital - KCB Account No.1133233864	-	30,460,569	(30,460,569)
Mutuini Dagorretti Sub County District Hospital -National Bank - Account No.102100895400	-	14,154	(14,154)
	(4,281,008,403)	(849,918,752)	(3,431,089,651)

The misstatements as analyzed above resulted to an overstatement of cash and cash equivalents balance by Ksh. 3,431,089,651.

- (iii) Further, analysis for the following reconciling items were not provided for audit verification;

Bank Account	Payments in cash book not yet recorded in bank statement (Un Presented Cheques) (Kshs.)	Deposits in the Bank Statement not in the cashbook (Kshs.)
Cooperative Bank- Revenue A/C No: 01141232396600		201,445,104.02
Cooperative Bank-Imprest A/C No: 01141232396601	1,053,098,522	2,174,717,744.08
Cooperative Bank-Solid waste management A/C No: 01141232396606	45,352,461	125,307,642.97

- (iv) Reconciliation statement for Cooperative Bank-Kenya Roads Board A/C No: 01141232396604 reflects bank balance of Kshs. 24,827,964 but the bank confirmation certificate reflects nil balance as at the same date. No explanation has been provided for this anomaly.

3.2. Non-Disclosure of Nairobi Ward Fund Account Balances

The Nairobi City County Executive operated a Ward Development Fund Account No.0082120378001 at Chase Bank. The Account had a balance of Kshs.4,984,545 as at 30 June 2017 with available balance of Kshs.992,300 as at the same date. The difference of Kshs.3,992,245 was being held under moratorium due to the receivership status of the bank. However, this information was not disclosed in the financial statements of the County Executive as at 30 June 2017. Consequently, the cash and cash equivalents position of the County Executive as reported in the financial statement is misleading and not fairly stated.

3.3. Weak Controls on Bank Reconciliation

Note 14A to the financial statements indicates that Nairobi City County Executive operated twenty-three operational bank accounts during the year under review with a closing balance of negative Kshs. 499,972,132. None of the accounts had the reconciliation statements reviewed by relevant senior officers. It was further noted that all the bank reconciliations did not indicate the officers who prepared them and also the date the reconciliation was done. As a result, it is not possible to confirm whether the County Executive was in compliance with regulation 90 (1) of Public Finance Management (County Government) Regulations, 2015.

3.4. Overdrawn Accounts

Nairobi City County Executive had four (4) overdrawn accounts as at 30 June 2017 as tabulated below:

Account Name	Amount (Kshs.)
Equity Bank-General collection A/C No: 0810263520904	11,112
Equity Bank-General collection A/C No: 0810271586663	256,092
Cooperative Bank-Imprest A/C No: 01141232396601	891,961,441
Kenya Commercial Bank-current A/C No: 1159076065	3,790,179
Total	896,018,824

No reasons were given for overdrawing the accounts contrary to Section 119(4) and (6) of the Public Finance Management Act 2012.

3.5. Non-Maintenance of Cash books and Bank Reconciliation Statements

Cash books and bank reconciliations for the following bank accounts for the year under review were not maintained:

Name of Bank, Account No. & currency	Reported Balances (Kshs)
Equity Bank-General collection A/C No: 0810263520904	(11,112)
Equity Bank-General collection A/C No: 0810271586663	(256,092)
Mutuini Dagorretti Sub County District Hospital -National Bank - Account No.102100895400	14,154

Total	(253,050)
--------------	------------------

Non-maintenance of cash books and non-preparation of bank reconciliation statements contravenes regulation 90 (1) of the Public Finance Management (county government) Regulations, 2015.

4. Pending Accounts Payables

- (i) Disclosed at Note 17 to the financial statements is a summary of pending accounts payables amounting to Kshs.56,516,365,308 as at 30 June 2017, an increase of Kshs.8,218,746,469 (17%) from the previous year balance of Kshs.48,297,618,839 as analyzed below:

Details	Current year Final (Kshs)	Prior year Actual (Kshs)	Increase (Kshs)	% Increase
Pending Merchants payables	6,614,150,772	5,332,716,053	1,281,434,719	24%
Pending Staff Creditors	142,249,068	107,548,846	34,700,222	32%
Other pending bills	44,786,733,639	39,422,844,055	5,363,889,584	14%
Outstanding Loan	4,973,231,829	3,434,509,885	1,538,721,944	45%
Total	<u>56,516,365,308</u>	<u>48,297,618,839</u>	<u>8,218,746,469</u>	<u>17%</u>

No justifiable reason was provided for the 17% increase in accounts payables.

- (ii) Had the pending bills of Kshs.56,516,365,308 been paid and the expenditure charged to the accounts for 2016/2017, the County Executive would have recorded a deficit of Kshs.55,694,170,987 instead of the surplus of Kshs.822,194,321 now reflected in the statement of receipts and payments for the year then ended. Failure to settle the bills in the year to which they relate adversely affects the following year's provision to which they have to be charged.
- (iii) Although the County Executive maintained a soft copy of the ledger for the above pending payables, the updated individual creditors' ledgers were not maintained. In addition, aging reports for the creditors were not maintained and the creditors' control accounts do not reflect payments made by the County Executive. Consequently, the accuracy, validity and valuation of County Executive's indebtedness to the creditors of Kshs.56,516,365,308 cannot be confirmed.
- (iv) In addition and as disclosed under Note 17.3, other pending bills as of 30 June 2017 amounted to Kshs.44,786,733,639 which comprised mainly of unremitted statutory deductions as analyzed below:

Creditor	2016/17 FY Balance (Kshs)	2015/16 FY Balance (Kshs)	Change (Kshs)
KRA	3,922,081,365	3,128,673,889	793,407,476

NSSF	470,808,346	509,097,305	-38,288,959
On Water Lent Loans	3,815,640,000	3,815,640,000	0
Govt guaranteed Loans	15,328,285,000	15,328,285,000	0
Laptrust Principal	5,812,450,194	5,296,304,468	516,145,726
Laptrust Penalties	3,088,249,653	1,904,323,121	1,183,926,532
Lapfund Principal	2,041,834,795	2,031,894,745	9,940,050
Lapfund Penalties	7,683,011,712	4,784,252,954	2,898,758,758
Lap Trust Actuarial Deficit	2,624,372,573	2,624,372,573	0
Total	44,786,733,639	39,422,844,055	5,363,889,584

The increase of Kshs.5,363,889,584 is largely attributed to penalties accrued on late remittance of Laptrust and Lapfund which increased by Kshs. 4,082,685,290. The County continues to incur penalties due to delayed remittance and settlement of statutory deductions. No explanation has been provided as to why the statutory deductions were not paid to relevant bodies as required.

5. Revenue Management

The statement of receipts and payments reflects County own source revenue of Kshs.10,933,201,474 for the period ended 30 June 2017 compared to revenue collected in 2015/2016 of Kshs.11,237,972,877 resulting in a decrease of Kshs.304,771,403 or (3%). Further comparison between the budget figure of Kshs.19,566,000,000 and actual own source revenue of Kshs.10,933,201,474 indicate a revenue shortfall of Kshs.8,632,798,526 or (44%). Trend analysis on the specific revenue items could not be performed since the format of the presentation of financial statements and budget were not consistent. The following unsatisfactory matters were noted also with regard to the management of revenue:

5.1. Non-Sweeping of County Own Source Revenue to the County Revenue Fund

As reported in the last financial year, the County Executive has not been sweeping all revenue collected from own source. During the financial year under audit, the County Executive collected revenue amounting to Kshs.10,933,201,475 from the County own generated receipts. Audit of the County Revenue Fund revealed that only Kshs.2,420,840,729 or (22%) of revenue collected was banked in the County Revenue Fund Account. The balance of Kshs.8,512,360,746 was spent at source contrary to Section 109 of the Public Finance and Management Act, 2012.

5.2. Compliant and Non-Compliant Vehicles On-Street Parking

Examination of records for vehicles parked within Nairobi City County during the year revealed that out of 1,305,440 vehicles parked, 402,401 or (31%) were compliant while the remainder, 903,039 or (69%) were non-compliant resulting in a probable revenue loss of Kshs.270,911,700 (based on street parking fees of Kshs.300 per vehicle). The management is yet to put in place adequate measures to curb the non-compliance.

5.3. Unaccounted for Clamps

Examination of enforcement revenue revealed that the system was releasing clamped vehicles without payments or the requisite approved penalty. During the year, the number of vehicles clamped were 25,700 as per the system records. The unaccounted-for clamps (vehicles unclamped without valid reasons) totaled to 15,388 or (60%) of the total clamped vehicles. Consequently, the County lost revenue equivalent to the unauthorized releases. Control over issuance and accountability over the clamps are weak and prone to manipulation. For instance, there is no system for monitoring the activities of field officers on the clamped vehicles to ensure that those unclamped have paid.

5.4. Loss of Revenue Due to System Downtime in Off Street Parking

As reported in the previous year, the County Executive automated the following off-street parkings; Law Courts, Sunken, Nginda and Intercontinental parking areas with 70, 240, 22 and 36 parking slots, respectively. Nevertheless, the automated system was noted to be down for significantly long durations necessitating use of manual ticketing which is prone to manipulation. Site visits to the parking areas on diverse dates in the financial year under review revealed that vehicles were normally double parked which is an indication of revenue collection in excess of a parking area's potential. However, examination of revenue returns for the four parking areas indicated annual revenue of Kshs.20,820,710 versus estimated revenue collection capacity based on the available number of parking slots of Kshs. 33,678,000 resulting to a variance of Kshs.12,857,290. The variance has not been explained. The cost benefit analysis of the computerization of the parking lot may not have been realized.

5.5. Compensation for System Down Time- Jambo pay system

A review of the Service Level Agreement entered between Webtribe and Nairobi County classifies the unavailability and downtime problems into priority level definitions and the action which Webtribe will undertake to ensure the resumption of the application. However, there is no amount or penalty that has been put in place chargeable to Webtribe in the event of unavailability of the system attributed to them. A review of system logs indicates that the system failed on several occasions and customers had challenges paying revenue. A sample of days when the parking section had challenges with the system logs revealed that an estimated 99 hours could have been lost resulting to a probable loss of Kshs.24,000,000. A request for information from the ICT department on the actual downtime for all the revenue streams was not provided for audit purposes. No compensations have been given for the system downtime. In the circumstances, without a binding clause in the contact document on who and how much should be compensated on system down time, the County Executive will not be compensated in case of system downtime. Further the County Executive stands to lose revenue in the event of prolonged system down time.

5.6. Spending at Source by Jambopay of 4.5% of Revenue Collected

The statement of receipts and payments reflects county own source revenue totalling to Kshs.10,933,201,475 out of which revenue collected through Jambopay was Kshs.7,924,761,266 representing 72% of the total revenue collected. It was noted that revenue reflected in the LAIFOMs was net of the vendors' fees of 4.5%. Documents

detailing the 4.5% deductions by Jambopay during the year were not however provided for audit review. In the circumstances, it was not possible to confirm the total amount of money the company had deducted in 2016/2017 and in the past financial years.

Further, the County Executive does not do validation/reconciliations and does not have access to the trust account of actual revenue collected by Jambopay. As noted in the previous reports, since the County Executive is able to collect this revenue through its own effort, then the cost of the contract should have been a percentage of the incremental revenue over and above the average actual revenue collected over an agreed period of time. Basing the cost of the contract on the total revenue would mean that M/S Webtribe Ltd will gain both from the Nairobi City County own effort\efficiency and convenience brought about by the system despite the fact that all revenue is collected by the County staff.

5.7. Revenue Recognition, Basis of Retention and Payment of Transaction Fee to Webtribe

The following information on Jambopay system was also not provided for audit review:

- (i) Reports of revenue generated from Jambopay to compare with LAIFOMs revenue report.
- (ii) Reconciliation reports on the expected revenue from Jambopay in relation to LAIFOMs.
- (iii) Payments of the 4.5% of revenue generated by the County through Jambopay.
- (iv) Trust account where all County funds are deposited before remittance to the County.

The payment vouchers examined revealed that the County also pays 1.25% of the value of all the cash office transactions that are made using the Jambopay system to Webtribe. However, the contract document provided for audit review does not have a provision for the payment of 1.25% of the transactions at the cash office. In addition, for the transactions made either through the mobile or web application, the funds collected are credited into a virtual account that is managed by PKF who later settles the net amount to the County. However, contract document in respect of an agreement if any between PKF and the County Government for the management of the virtual account was not provided for audit review.

In the circumstances, it is not possible to confirm the total revenue collected by Jambo Pay. Further payment to Webtribe of 1.25% is deemed irregular since there is no binding contract or addendum between the Nairobi County and Webtribe.

5.8. Reduction in Revenue Collection

Mama Lucy Kibaki and Mbagathi Hospitals collected Kshs.121,636,084 of revenue from different revenue streams during the financial compared to Kshs.181,193,975 in 2015/2016 ,a reduction of Kshs.59,557,891 translating to 33% revenue shortfall as detailed below:

Comparison of Previous year revenue and current year				
	2016-2017 (Kshs)	2015-2016 (Kshs)	Shortfall (Kshs.)	% Shortfall
Mama Lucy Kibaki	63,196,278	92,959,221	29,762,943	32%
Mbagathi Hospital	58,439,806	88,234,754	29,794,948	34%
Total	121,636,084	181,193,975	59,557,891	33%

No explanation was provided for the revenue shortfall.

6. Non-Disbursement of Capitation and Free Maternity Funds

The County Government has received free maternity reimbursement from the Ministry of Health amounting to Kshs.281,567,500 for various hospitals in the County since the inception of the programme in 2013/2014. The following unsatisfactory matters have been observed:

6.1. Pumwani Maternity Hospital

Pumwani Maternity Hospital expected cumulative reimbursement up to 30 June 2017 was Kshs.342,305,100 against an actual amount of Kshs.173,851,907 received, resulting in a shortfall of Kshs.168,453,193. Details are as tabulated below:

Period	No. of Deliveries	Expected Reimbursement (Kshs)	Amount Received (Kshs)	Balance (Kshs)
June 2013-June 2014	19,637	98,185,500	154,096,907	(55,911,407)
July 2014-June 2015	19,116	95,580,000	0	95,580,000
July 2015-Jan 2016	9,481	47,405,000	0	47,405,000
Feb 2016-May 2016	6,568	32,840,000	19,755,000	13,085,000
June 2016	1,663	8,315,000	0	8,315,000
July 2016-June 2017	11,279	59,979,600	0	59,979,600
	56,465	342,305,100	173,851,907	168,453,193

Despite the County Government receiving the free maternity funding, reimbursement was not made to the hospital thus affecting its daily operations.

6.2. Dagorretti Sub District Hospital

Dagorretti Sub District Hospital expected cumulative reimbursement of Kshs. 4,590,000 up to 30 June 2017 against amounts received so far of Kshs. 1,280,916 resulting to a shortfall of Kshs. 3,309,084. During the financial year under audit, the hospital did not receive any free maternity reimbursements from the Ministry of Health.

6.3. Mama Lucy Kibaki County Hospital

The Mama Lucy Kibaki County Hospital had 3,468 deliveries during the year resulting in amount of Kshs. 17,340,000 to be reimbursed by the National Government. However, no amount was reimbursed during the year. In addition, an amount of Kshs.81,483,765 has not been reimbursed to the hospital since the inception of the free maternity programme.

6.4. Mbagathi Hospital

Mbagathi Hospital had 4,281 deliveries during the year and the total amount to be reimbursed for the deliveries for the year under review was Kshs. 21,405,000. However, no reimbursement was made to the hospital during the year. The continued delay in reimbursements of free maternity funds adversely affect service delivery by the hospital 7.

7. Development Projects

7.1. Slow Rate of Implementation of Development Projects

According to the County approved budget for 2016/2017 financial year, the Transport, Infrastructure and Public Works Sector was allocated Kshs. 430,000,000 and Kshs. 1,976,827,176 for maintenance of roads and construction of roads, respectively. A schedule of projects earmarked for implementation during the year provided for audit verification indicated that the County initiated twenty-five road projects at a total cost of Kshs.1,332,154,416. The following shortcomings were however noted:

- (i)** Out of the twenty-five projects initiated, six projects worth Kshs. 265,955,445 representing 20% had not commenced nineteen months later.
- (ii)** Out of the nineteen projects started, only four projects with works worth Kshs. 69,952,071 had been certified for payments.
- (iii)** Contractors for Ruai ward roads and California estate roads projects had abandoned the works for non-payment of the first certificates.
- (iv)** No single payment had been made for the certified works as at close of the financial year.

Consequently, the residents of Nairobi City County did not get value for money in respect of the road projects undertaken by the Transport, Infrastructure and Public Works Sector.

7.2. Stalled Projects

7.2.1. Construction of Ruai Street Children Rehabilitation Centre

Construction of Ruai Street Children Rehabilitation Centre commenced in 2015 as one of the flagship projects of the County. The contract was awarded to Tecina General Contractors Limited at a contract price of Kshs. 126,956,200. In July 2016, works valued at Kshs.21,773,719 were certified for payment. However, as at the time of audit, the first certificate had not been paid. A visit to the project in January 2018 revealed that the project

had stalled and that the contractor had abandoned the project due to non-payment. Education, Youth Affairs, Sports, Culture and Social Services Sector responsible for the project nevertheless had an approved budget of Kshs.150,000,000 for construction of buildings.

7.2.2. Construction of Joseph Kang'ethe Social Hall

The Project commenced in August 2015 and was due for completion in August 2016. The contract was awarded to Derrow Brothers Construction Ltd. at a contract price of Kshs.61,081,436. The first certificate for works valued at Kshs. 21,928,395 was approved on 17 March 2016 and paid in October 2016. A visit to the project in January 2018 revealed that the project had stalled.

7.2.3. Construction of Perimeter wall at Mji wa Huruma

A contract for construction of a perimeter wall at Mji wa Huruma was awarded on 4 May 2015 at contract sum of Kshs.16,884,600 through restricted tendering procurement method. However, no reasons have been given for using restricted tendering method contrary to the requirements of Section 29(3) of the Public Procurement and Disposal Act 2005, then applicable. Physical verification of the project indicated that no notable works had been done since last year. Reason cited for the stalling of the projects was non-payment of certified works causing the contractors to suspend the works. The home requires a perimeter wall urgently for purposes of security and safeguarding the County property and the aged living in the home. The home is located near a slum and residents have created shortcuts in the home which poses as a risk since anyone can get into the home at any given time. The current support staff who are residing in the home live in condemned houses which needs to be refurbished.

7.2.4. Nairobi Integrated Urban Development Master Plan (NIUPLAN)

The Nairobi City County Executive contracted the services of the University of Nairobi Enterprises and Services Limited (UNES) to formulate the development control guidelines within the Nairobi Integrated Urban Development Master Plan (NIUPLAN). Nonpayment of the contract by Nairobi City County Executive has delayed completion of the process. Documents relating to the contract were not presented for audit review. Consequently, it has not been possible to ascertain if the public got value for money as regards the contract.

8. Procurement of Goods and Services

8.1. Failure to Produce Procurement Records and Project Documents

Procurement records and documents in respect of goods and services costing Kshs.40,109,701 as summarized below were not provided for audit verification:

<u>Sector</u>	Amount (Kshs.)
Health	30,369,141
Trade, Commerce, Tourism and Cooperative	9,740,560
Total	40,109,701

Details of the specific documents per sector are as follows:

8.1.1. Health Sector

The Health Sector incurred expenditure totalling Kshs.30,369,141 mainly on supply of binding certificates, fixing of curtain blinds, rheumatoid factor test kits, staff uniforms, cleaning materials and rehabilitation of Plains View dispensary. The payment vouchers lacked supporting documents including delivery notes, distribution lists, invoices and inspection certificates. Further, procurements of the goods were not done through IFMIS.

8.1.2. Trade, Commerce, Tourism and Cooperative Sector

The Trade, Commerce, Tourism and Cooperative Sector incurred expenditure totaling Kshs.9,740,560 mainly on payments for purchase of office equipment, supply of public address system for weights and measures operations and supply of fireworks to usher in new year 2017. The payment vouchers lacked contract documents. No reasons were given also for applying restricted tender instead of open tender.

In the absence of the supporting procurement documents for above transactions, the propriety of expenditure of the Kshs.40,109,701 cannot be confirmed. Further, it is not possible under the circumstances to confirm whether the sector followed the provisions of the Public Procurement and Asset Disposal Act, 2015.

9. Human Resources

9.1. Non-Adherence to Third Pay Rule

It was observed that one hundred and ninety-seven members of staff were earning less than the minimum net pay allowed contrary to the third pay rule and Public Officers Ethics Act 2003. The data extracted from the month of June 2017 payroll indicated that the trend was the same during and after the period under review. In the circumstances, the affected workers risk pecuniary embarrassment which is contrary to Public Officer Ethics Act, 2003.

9.2. Lack of Authorized Establishment

The Nairobi City County Executive operated without an authorized staff establishment in place. There were no policies to manage staffing, posting and transfers of employees. The transition from the City Council to Nairobi City County Government was not accompanied by the necessary structural and human resources changes and therefore there is no human resource policy in place. Consequently, non-core departments are over-staffed with cadres such as laborers, cleaners and inspectorate while technical departments are understaffed.

9.3. High Percentage Wage Bill

The total County Executive expenditure on compensation of employees during the year under review amounted to Kshs.12,729,646,976 as disclosed under Note 5 to the financial statements, compared to total revenue of Kshs.25,784,240,036 representing 52% of the total County revenue. Further, information available indicate that the County management was yet to set thresholds on employees` compensation against total revenue as stipulated in the Public Finance Management Act, 2012. The current expenditure levels of 52% of the total County revenue is indicative of over establishment which impacts negatively on

development sectors of the County. The County Government has, therefore, contravened Section 107(2) of the Public Finance Management Act 2012.

9.4. Casual Workers at Mama Lucy Kibaki Hospital

Casual wage payments at Mama Lucy Kibaki Hospital during the year amounted to Kshs.11,094,599. As noted in the previous year, the number of casuals remained high at around ninety casuals in contrast to other similar facilities such as Mbagathi District Hospital with around twenty-five casual workers. High number of casuals, some being deployed as cashiers poses risk and strains to the facility's financial obligations.

10. Solid Waste Management

10.1. Irregular Collection of Garbage in Non-Contracted Zones/Areas

Water, Energy, Environment, Forestry and Natural Resources Sector, made payments totalling Kshs.344,820,778 to nineteen firms for collecting and disposing of solid waste in Dandora dumpsite. However, it was noted that the firms operated in zones/areas in which they were not prequalified to operate. A review of payment vouchers revealed that the firms irregularly collected 98,118 tonnes of garbage from such zones translating to Kshs.184,563,784. Consequently, payments amounting to Kshs.184,563,784 were made contrary to the binding contracts.

10.2. Irregularity in Hire of Garbage Collection Works.

- (i) Creative Consolidated Systems under contract number NCC/WEFE&N/T/004-2015-2016 was paid Kshs.10,304,740 vide Cheque Nos.16032 and 16031. The payment was for street sweeping, litter bin emptying, solid waste collection, transportation and disposal services and provision of insurance for April 2017. It was noted that backhoe registration number KHMA 412E had odometer time sheet indicating the machine operated for 29 hours on 16 April 2017 which was not possible. In certain instances, the equipment operated for 23 hours per day nonstop for a whole month as per odometer reading analysis. This may not be possible taking into account repairs and maintenance schedules of such machines.
- (ii) Further, Puka Investment was paid Kshs.7,164,113 on 24 August 2016 vide payment voucher 14468 for collection of garbage from CBD. On 18 July 2016 vehicle registration KBT 006S as per weigh return summary and documents attached was weighed twice in a span of 4 minutes on 18 July 2016. The first delivery had 11.75 tonnes at 01.08 am and the second delivery had 13.65 tonnes at 01.12am, a difference of 4 minutes. Consequently, the County Government may have paid for fictitious machine hours' claim.

11. Health

11.1. Unaccounted for Drugs, Overstocking of Non-Pharmaceutical Items and Expired Drugs

- (i) Examination and analysis of different stock cards at Mama Lucy Kibaki Hospital pharmacy stores revealed that drugs worth Kshs.148,890 could not be accounted for. The stock control cards had no matching entry with physical stock count. In the circumstances, it has not been possible to confirm that the drugs were received at the intended pharmacies and applied for the intended purposes.
- (ii) Further, Mbagathi County hospital was holding too much non-pharmaceutical items with most of them nearing expiry period. Sampled stock cards and physical verification revealed that the facility had Kshs.3,055,944 worth of non-pharmaceutical items that were almost expiring as detailed below:

S3 CARD NO.	ITEMS	STOCK BAL.	UNIT PRICE	VALUE (Kshs)
362550	NGT/Feeding tubes	20615	48	989,520
415002	Crepe Bandage	158	28	4,424
362544	Oxygen Masks	4868	250	1,217,000
362593	2CC Syringes	8700	30	261,000
306479	G22 BLUE	7150	70	500,500
301171	CORDCLAMPS	2000	12	24,000
464499	HAND GEL	170	350	59,500
Total				<u>3,055,944</u>

It was not clear whether the items were acquired following user requests and procurement plans. The hospital's pharmaceutical department and stores also had expired drugs and pharmaceutical items amounting to Kshs.1,410,826 as detailed below:

Name of drug	Batch No	Expiry date	Qty Expired	Total Cost (Kshs.)
Paracetamol 1g	14A4053	Nov-16	780	179,400
Levothyroxine 100mcg		Dec-16	400	2,760
Bisacodyl 5mg		Jan-17	2600	1,092
Bupivacaine heavy	F0114-1	Jan-17	500	172,000
Rocephine 1g		Mar-17	440	176,000
10% dextrose	2062	Mar-17	105	4,725
x-pen 5mu	140555	May-17	7200	165,600
Gabapentin 300mg	5121471	Jun-17	27900	186,000
Amlodipine 5mg	SFSIF401E	Jun-17	10000	20,000
Amitryptilline 25mg	62080	Jun-17	21000	8,505
Darrows		Apr-17	889	57,785
Water for injection	15019	Jun-17	17090	68,360
Phenytoin injection	5L2502 1	Aug-17	31	10,902
Lignocaine		Sep-17	53	2,279
Heavy Bupivacaine		May-17	30	1,410
Promethazine 50mg		Aug-17	90	810
Furosemide inj		Jun-17	1996	15,968

ceftazidime	4120848	May-17	9	1,350
Suxamethonium		Sep-17	5	180
dental catridges		Sep-16	10500	315,000
Hydrogen peroxide 200ml		Jun-17	100	7,500
Antacids	63232/63227	Mar-17	20000	4,200
Ranitidine injection		Mar-17	1000	9,000
TOTAL COST				1,410,826

Most of the drugs were supplied by the Kenya Medical Supplies Agency (KEMSA). The hospital management did not explain the reasons for the expiry of the drugs. In the circumstances, the hospital incurred increased carrying costs and failed to get value for money for the expired drugs.

11.2. Manual Collection of Revenue at the Inoculation Centre

Despite the automation of the County Executive, it was noted that the revenue collection at the Inoculation Centre was done manually. During the year under review, the manual revenue receipts amounted to Kshs.73,993,740 against a budget of Kshs.60,000,000 translating to over collection of Kshs.13,993,740. Manual systems by their nature are prone to human manipulation. No explanation has been provided for the continued use of manual systems to collect and account for revenue at the Centre. Further, the inventory register for received, used and spoilt vaccines was not presented for audit review. Consequently, it was not possible to confirm the revenue collected in relation to the vaccines received.

11.3. Failure to Manage and Account for Patients through the Check Health Information Systems (CHIS) at Mama Lucy Kibaki Hospital

The Check Health Information Systems (CHIS) was installed at Mama Lucy Kibaki Hospital in 2015 at a cost of Kshs.3,000,000. The system was to be rolled out in two phases. Phase one was to cover outpatient department and phase two to cover inpatient department and other areas such as procurement, pharmacy stores and morgue. Audit of the system revealed that during the year ended 30 June 2017, patients who registered at the casualty were 181,029. However, only 48,555 or (27%) were seen by the doctors through the CHIS system. The other patients totalling 132,474 or (73%) were not accounted for in the system. Further data of patients who were served at the pharmacy and laboratory by the Check Health Information Systems (CHIS) was not presented for audit review. This is an indication that the management was not ready to use the system to manage patients.

12. Education and Social Services

12.1. Under-funding of Waithaka Technical Training College

Waithaka Technical Training College was founded in 1984 as an entity of the defunct City Council of Nairobi with a vision to be a centre of excellence in technical training and human resource development. Its mission being to produce artisan graduates who are knowledgeable, skilled, equipped and with positive attitudes that enables them to cope with challenges of the fast-changing world. Further, the institute aspired to offer technical skills

to youths within a healthy environment and nurturing their talents through life support skills during their development stages. A visit to the institution in the year under review revealed deplorable condition in terms of its operations and infrastructure. For the past five years, the students' enrolment has gradually declined as shown below:

Year	2017	2016	2015	2014	2013
Enrolment	64	82	86	90	95

The institution operates entirely on revenue collected through fees payment by the students despite its expenditure being budgeted for by the County Executive. The tuition component of the fees paid by the students is banked in the Nairobi City County bank account. The institute has a shortage of both teaching and non-teaching staff. Further, site visit showed that the buildings are in a deplorable state, with all having asbestos roofing that have already been condemned. The institution's basic amenities like toilets are in very bad condition exposing the staff and students to health hazards. This has led to decline in student's enrolment resulting in under realization of the institution's potential. Further, the institution has not been fenced thus exposing it to security risk and land encroachment.

12.2. Outstanding Long-Term Loan (MG1424500930)

Disclosed at Annex 4 to the financial statements is an outstanding loan of Kshs.4,081,270,388as at 30 June 2017 representing an increase of Kshs.680,902,543 from the previous year balance of Kshs.3,400,367,845 relating to KCB Loan MG 1424500930. Bank statements from 1 July 2016 to 12 August 2016 and 9 November 2016 to 30 June 2017 for the loan were not provided for audit review. The loan balance as at 9 November 2016 was Kshs. 3,024,502,732. Examination of the statements provided revealed unexplained capture bill, penalty interest, principal repayments and repayments of dues as follows:

Details	Amount(Kshs.)
Capture Bill:	135,585,169
Penalty Interest:	50,512,952
Principal Interest	351,267,201
Repayment of Dues	24,976,238.65

Further, the repayments of dues of Kshs. 24,976,239 was not reflected in the statement of receipts and payments. Loan amortization schedule/control accounts and bank confirmation certificates were not provided for audit review. No explanation was provided as to why the County has continued to default on the loan repayment leading to penalties and capitalization of interest. Consequently, the accuracy of the loan balance reflected as at 30 June 2017 cannot be confirmed.

14. Noncurrent Assets

14.1. Un-supported Fixed Assets Summary Balances

As disclosed at Annex 5 to the financial statements, the County Government had assets with a total historical cost of Kshs. 18,368,880,107 as at 30 June 2017. A review of the

assets register provided for audit verification indicated that the register was incomplete. Details about acquisition cost of assets and date of acquisition were not updated. It was further noted that the register in place is a draft and has been maintained in an excel worksheet exposing it to unauthorized amendments. Further, assets acquired during the year amounting to 1,762,711,478 were not recorded in the register. Consequently, the completeness, accuracy and existence of assets totalling Kshs.18,368,880,107 disclosed cannot be confirmed.

14.2. Encroachment of City Park Land by Private Developers and Business Enterprises

Site visit revealed that, several sections of the City Park land have been encroached by private developers and business enterprises. The areas encroached include seedlings area, habitats for wild animals and trees in the park. The areas affected most are as follows:

- (i) Bowling Green Safari.
- (ii) Unknown people have encroached a section of City Park adjacent to Joseph Murrumba Memorial Park.
- (iii) Eden House Rehabilitation Centre.

Evidence of action taken by the County Government to reclaim the land and prevent further interference with the park have so far not been provided for audit review.

14.3. Roads damaged by Kenya Urban Roads Authority (KURA)

Sections of the roads within the City Park were destroyed by vehicles belonging to KURA during road construction works adjacent to the facility. It's not clear why KURA failed to repair the roads after completion of the work. Management did not produce for audit review demand letters and correspondences between the County Government and KURA on the repairs.

15. Legal Costs

Note 6 to the financial statements on use of goods and services includes other operating expenses totalling Kshs.1,995,161,686. The other operating expenses further include legal costs amounting to Kshs.645,260,542. It was however noted that legal costs amounting to Kshs.592,437,994 were paid outside the Integrated Financial Management Information System (IFMIS) contrary to the National Treasury directives. Further, the actual expenditure on legal services of Kshs. 645,260,543 exceeded the approved budgetary allocation of Kshs.105,000,000 resulting in an over-expenditure of Kshs.540,260,543 or 515%. No authority for the supplementary expenditure was sought from the County Assembly contrary to Section 196 (1) of the Public Finance Management Act, 2012. In addition, a review of sample case files revealed that twelve files with payments to lawyers totalling Kshs.318,418,310 were not adequately supported with information and documentary evidence as shown below:

Legal Firm	Amount	Case File No./Details	Deficiency
-------------------	---------------	------------------------------	-------------------

		(Kshs)		
1	Achola Jaoko & Co. Advocates	7,000,000	HC.PET No. 285 of 2013 Council of Nairobi retirees' welfare vs Nairobi City County	Why did the County/City Council of Nairobi stop investing and declaring interest from the year 2003? Why did the County/City Council of Nairobi fail to register the provident fund with RBA as required by the RBA Act in 1997?
2	Koceyo and Company Advocates	5,000,000	HC ELC No. 781 of 2015 Nairobi City County vs National Lands Commission & 3 others	The value of the dispute is not supported. Where is the valuation report to confirm the value of the contested property, what is the status of the case?
3	Koceyo & Co. Advocates	15,947,363	HCCC ELC NO. 1152 of 2015 Philip Munywoki Kilonzo & 2 others vs Nairobi City Council	Allotment letters by the defunct City Council of Nairobi not in the case file
4	Wachira, Mburu, Mwangi & Co. Advocates	32,374,347	HCCC NO. 874 of 2010 Josmass Enterprises vs City Council of Nairobi	How could the plaintiff sue for damages and yet evaluation for tenders was not over yet. The correspondences between Josmas Enterprises and the Israel firm not presented for review to confirm the allegations.

5	Munikah & Co. Advocates	12,500,000	HC Msc.Appl. Number 247 of 2011. Munikah & Co. Advocates City Council of Nairobi	Why did the advocate take over three years to do a fee note to the CCN? Counter claim not attached in the case file, how much did the advocate collect on behalf of CCN since this was the initial objective? What is the current status of the case?
---	-------------------------	------------	--	---

6	Prof. Tom Ojienda and Associates	20,000,000	Misc. Appl.No 2 of 2016 Prof Tom Ojienda and Associates Vs NCC. The applicant filed the bill of costs in respect of H.C Judicial Review Application No.274 of 2014(Karen -Langata vs Nairobi City County)	County officials were instructed to make arrangements for a meeting to negotiate on the issues of reduction of the judgement and mode of settlement. Did the team negotiate with Prof Tom Ojienda and Associates on the revision of fees downwards, please attach the minutes of the deliberations and agreed sum.
7	Wachira Nderitu Ngugi and Co. Advocates	9,000,000	HC JR MISC. Number 431 of 2012.Wachira Nderitu and Company Advocates Vs Town Clerk,City Council of Nairobi ,Civil application number 221 of 2012	What was the basis of the decretal sum? The case file very scanty and cannot give proper details.
8	Momanyi Associates and Co. Advocates	8,170,000	HC JR APP. Number 32 of 2011 Kenya Shell Ltd Vs the Registrar of Titles and City Council of Nairobi	Was the letter from DCI responded to and if yes where are the certified copies of the stated /requested nine letters in the case file

9	Kithi and Company Advocates	20,426,600	Halima Dafara Gole Vs David Kamari, Pinnacle Properties and Nairobi City County ELC Civil case Number 558 of 2014	How did the County arrive at the fee payable to the advocate of Kshs.20,426,600.00 taking into account it had very little to lose and in all material facts this was a forgery?
10	Rachier and Amollo Advocates	20,000,000	High Court Civil Suit Number 731 of 2008 North End Trading Company Ltd and Kenya	Kshs.95,372,160 was paid instead of judgement amount of Kshs.70,372,160.

			Refuse Handlers Vs City Council of Nairobi	Please provide reasons for the differences.
11	Momanyi & Associates	85,000,000	PET. NO. 127 of 2011- Edward Ruraya & 2 Others vs NCC	Why did the City Planning Department issue titles against Court order wrongfully and illegally to non-members of the Komarock Bridge Jua Kali?
12	Koceyo & Co. Advocates	83,000,000		File not produced for audit review, status not confirmed.
	TOTAL	318,418,310		

Consequently, the validity and propriety of legal fees for the year as disclosed in the financial statements cannot be confirmed.

16. Budgets and Budgetary Controls

16.1. Under and Over Expenditure on the Approved Budget

During the year under review, Nairobi City County Executive budgeted to spend Kshs.33,553,115,033 according to the combined statement of appropriation. However, the actual expenditure as reported in the statement of receipts and payments was Kshs.24,962,045,715 or (75%) resulting into a net under- expenditure of Kshs.8,591,069,318. Budget execution per sector reveals that Finance & Economic Planning Sector budgeted to spend Kshs.2,923,316,824 on recurrent expenditure but spent Kshs.3,786,229,979 resulting to over expenditure of Kshs.862,913,155. The County Government did not provide reasons for the under/over expenditures. Consequently, it has not been possible to confirm whether the budget and the budgetary controls were adhered to.

16.2. Inconsistencies Financial Statement and Budget

- (i) Budget execution by sector/program reflects total programmes and sub-programmes expenditure totalling Kshs.22,192,208,965 while the statement of receipts and payments reflects total expenditure totalling Kshs.24,962,045,715, resulting to unexplained /unreconciled difference of Kshs.2,769,836,750. No explanation was provided for the inconsistencies.
- (ii) In addition, summary statement of appropriation-recurrent reflects a budget of Kshs.22,438,115,020 and actual expenditure at Kshs.23,240,266,115. However, the budget execution per program reveals a budget figure of Kshs.21,967,802,019 and actual expenditure of Kshs.18,771,082,483 resulting to unexplained difference of Kshs.470,313,001 and Kshs.4,469,183,632 between the two set of records.

- (iii) Further, the summary statement of appropriation-development reflects budget of Kshs.11,115,000,013 and actual expenditure of Kshs.1,721,779,600. However, budget execution by programmes and sub-programmes reflects actual expenditure of Kshs.3,585,299,675 resulting to unexplained difference of Kshs.1,863,520,075.

16.3. Un-budgeted Expenditure Incurred off IFMIS

It was observed that payments totalling Kshs.2,254,414,285 on other payments and loan repayments were paid off IFMIS and were not budgeted thereby contravening the National Treasury regulations on use of IFMIS. The expenditure incurred outside IFMIS are as detailed below;

	Other Payments	Actuals (Kshs.)
1	Other Expenses bank charges	147,628,039
2	Other Expenses - Debt Repayment-Other Creditors	768,428,163
3	Other expenses-Debt repayment KRA agency notice	1,308,358,083
4	Loan repayments	30,000,000
	TOTAL	<u>2,254,414,285</u>

No approval from the county assembly was provided for the expenditure. The management explained the difference to have arisen out of transactions processed manually and outside the IFMIS. No reason has been given for the failure to use IFMIS in processing the payments contrary to the National Treasury requirements.

17. IT Controls

(i). System Security Management

The county executive does not have an approved IT security policy to ensure that data stored in its systems does not lose its integrity and is readily available when required. The entity has not installed antivirus programs in its systems and has not put up mechanisms to ensure that there is up-to-date security on all systems software.

(ii). Program Change Management

The county executive does not document and approve processes to manage upgrades made to all financial / performance information system. This implies that changes to the financial system might occur without the completion formal change request documentation.

(iii). T Service Continuity

The county executive does not have a disaster recovery plan and has not implemented a backup and retention strategy. The county executive also does not have backups stored in a secure offsite storage facility.

(iv). Logical Access Control

The county executive does not have a formally documented and approved user management standards and procedures.

Consequently, the IT security and disaster recovery plan of the County Executive cannot be confirmed.

18. Un-resolved Prior year Audit Issues

The following prior-year audit issues remained unresolved as at the time of the audit of the financial statements for the year ended 30 June 2017:

18.1. Assets and Liabilities Inherited from the Defunct City Council of Nairobi

The statement of receipts and payments reflects an amount of Kshs.1,762,711,478 (2015/2016 - Kshs.2,428,223,605) under acquisition of assets for the year ended 30 June 2017. However, as similarly reported in the previous years, the County's statement of receipts and payments acquisition of assets figure of Kshs.1,762,711,478 for 2016/2017 and the summary of fixed asset register figure of Kshs.18,368,880,107 as At 30 June 2017 reflected in Annex 5 to the financial statements do not include the assets and liabilities of the defunct City Council of Nairobi despite the County management having taken possession of the assets. In addition, the Inter-Governmental Relations Technical Committee which took over the Transition Authority is yet to formally hand over the assets and liabilities of the Local Authorities to the County Government. It is not known when these assets and liabilities will be handed over to the County Government.

18.2. Land and Buildings – Encroachment of County Government Properties

- (i)** Encroachment on the Komarock Ward Offices -Embakasi Central Sub-county- the land in which the Komarock Ward offices are located has been claimed by private developers.
- (ii)** Encroachment of Mutuini Hospital - the hospital land is not fenced and has been invaded by squatters.
- (iii)** Komarock Playing ground, Komarock Ward-Embakasi Central Sub-county, lacks a perimeter fence and is susceptible to encroachment by private developers.

18.3. Allocation of County Land to Private Developers

The then defunct City Council of Nairobi allocated various parcels of land to private developers. Some of the developers have since demolished properties previously owned by the defunct Council. The process of allocating the land to the private developers cannot be confirmed to have been transparent given that no records have been provided so far to confirm the process. Some of the land issued to private developers included:

- (i)** High Ridge Health Centre; where the health centre was demolished and the parcel of land allocated to private developers.

- (ii) Nanyuki Roads Store and Depots; the land was reserved for road maintenance materials. It was demarcated and 1.227^{Ha} hived off and allocated to M/S Hass Petroleum Ltd. It was further noted that the depot lost materials estimated to be worth Kshs.22 million.

18.4. Karen Health Centre Land Dispute

A neighbouring PCEA Church according to the management of the facility had encroached the Karen Health Centre land.

18.5. Irregular Allocation and Disposal of County Land LR. NO 209/2531/1

The above land measuring 20.5 acres, now occupied by Highways Stores was originally allocated to the then Municipal Council of Nairobi title NO IR 4786, LR No.209/2531 for a term of 99 years from 1 October, 1929 to 1 October, 2028. On 18 June 1952 the Kenya Meat Commission was allocated part of the land measuring 2.5 acres. On 10 October, 1969, 9.5 acres was allocated to St Peter Clavers' and Muthurwa Primary Schools. A visit to the site showed that portion of the remainders of the land 8.5 acres has been allocated to unknown private developers as follows:

- (i) Part of Country Bust Station Phase 2.
- (ii) Part of the Nairobi City County Department.

No documentation has so far been presented to show how the private developers were allocated the land.

18.6. Malfunctioning of the Integrated Urban Surveillance System for Nairobi Metropolitan Area - Nairobi Central Business District

As similarly reported in the previous year, the installation, testing and commissioning of an integrated urban surveillance system for Nairobi Metropolitan Area (Nairobi Central Business District) was implemented by Ministry of Nairobi Metropolitan at a contract sum of Kshs.437,405,895.36. The contract was awarded to M/S Nanjing Les Information Technology Limited on 14 September 2012. The project entailed installation of surveillance cameras, installation of new traffic management system, construction of a control centre and installation of associated software. No information has been provided so far on action taken to obtain the requisite equipment, previously reported as lacking to enable communication between the control centre and several surveillance points. In addition, no new information has been provided on the twenty six (26) out of the forty two (42) cameras that were not functional. Further, it has not been clarified whether the cameras are now capable of detecting motor vehicle number plates. In the circumstances, the surveillance system and security installations may still not be relied upon to enhance security for the County's residents.

18.7. Irregular transfer of Mariakani Estate

Information available indicates that the defunct Nairobi City Council (NCC) and Local Authorities Provident Fund (Lapfund) management during its meeting of 7 August, 2012 resolved and subject to board approval to waive 50% interest amounting Kshs.958,696,388.75 owed to the latter. Consequently the amount owed to the Fund by the defunct NCC reduced from the then balance of Kshs.2,218,488,958.50 to Kshs.1,259,792,569.75. Further and to clear the outstanding debt, the following properties were to be relinquished by the Council to the Fund subject to adoption and approval by the full Council: Jamhuri Estate in Dagoreti, Ring Road Estate in Westlands and Jevanjee Estate in Kariokor. This was approved on 10 August 2012, by the defunct NCC through a special Finance Committee meeting. However, the following gaps were noted in the Minutes of the meeting that authorized the transfers:

- (i) count of the members who supported and those who voted against the transfer was not recorded in the Minutes;
- (ii) there is no mention of Mariakani Estate title number 209/6612 in the Minutes as one of the properties that was to be transferred to the Fund, although it was subsequently transferred;
- (iii) there is no minute on confirmation of the defunct NCC indebtedness as having been audited and agreed to prior transfers as stipulated; and
- (iv) due diligence on transfer of public property requires that both the Ministry of Lands and at least two independent valuers undertake valuations prior to transfer.

However, it is not clear how the valuation for Mariakani Estate was undertaken. In Addition, the memorandum of registration of transfer of land dated 18 March 2013 indicates the transferor of the property as the defunct NCC but by that date, the Council was non-existent in law.

Responsibilities 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 Executive's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern 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.

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

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

My responsibility is to conduct an audit of the County Executive financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) 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. However, because of the matter described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

I am independent of Nairobi City County Executive 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.



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

Nairobi

3 May 2018