

- i) Hardboard double doors were fixed instead of hardwood panel doors. The roofs were leaking. Locally made steel doors were also not of British standard as specified in the bills of quantity.
- ii) The engineers summary of the work done differ with what was reported by the inspection and acceptance team.
- iii) The contractor did not put a request to use provisional sums amounting Kshs.300,000. However, the amount was utilized as provisional sum.
- iv) The contractor was not on site.
- v) The project is yet to be completed.

2.9.3. Construction of Nyang'oma Maternity Wing

Included in the Acquisition of Assets figure of Kshs.2,105,940,073 is 326,240,073 under other infrastructure and civil works which in turn includes Kshs.1,000,000 in respect of construction of Nyang'oma maternity wing. However, it was noted that the internal walling had been done with bricks mixed with stones, yet the bills of quantity specified stones only.

Consequently, the propriety of the expenditure of Kshs.1,000,000 and whether the residents of the county received value for money from the project cannot be confirmed.

2.10. Civil Works In the Trade Sector

2.10.1. Construction of Modern Market Yala Township

Included in the acquisition of assets figure of Kshs.2,105,940,073 is Kshs.328,240,073 under other infrastructure and civil works which in turn includes Kshs.3,940,417 in respect of construction of modern market Yala Township. However the following anomalies were noted:

- i) No NEMA certificate was availed for audit. The project is situated near a swamp area and the site is also situated near a swamp area while the project has stagnated while the project has stagnated while the project has stagnated.
- ii) The project has stagnated while the project has stagnated.

2.10.2. Construction of Business Hub at Slaya Township

Other infrastructure and civil works also included in the acquisition of assets figure of Kshs.2,105,940,073 is Kshs.328,240,073 under other infrastructure and civil works which in turn includes Kshs.3,940,417 in respect of construction of modern market Yala Township. However the following anomalies were noted:

Report of the Auditor-General on the Financial Statements for the Year 2019
10 June 2017

NAIROBI CITY COUNTY CHAMBUA REPORT 2019

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ACRONYMS

NTA	National Taxpayers Association
OAG	Office of the Auditor General
IFMIS	Integrated Financial Management Information System
PFMR	Public Finance Management Regulations
PFM	Public Finance Management
KRB	Kenya Road Boards
OSR	Own Source Revenue
KEMSA	Kenya Medical Supplies Authority
CBEF	County Budget Economic Forum
COB	Controller of Budget
TB	Tuberculosis



ANNEX

1. Based on the OAG reporting opinions, the County Executive and Assembly Audit Reports were assigned either of the following;
 - **QUALIFIED (Kind of Good):** Assessment that would have been considered clean but for a few audit queries
 - **ADVERSE (Kind of Bad):** Has pervasive (systematic) problems. Of high concern
 - **DISCLAIMER (Bad):** Has shoddy record keeping, Auditor General unable to review and form opinion
 - **UNQUALIFIED (Very good):**
2. Total Budget refers to all the money allocated to the assembly or executive; Recurrent cost refers to recurring costs such as wages while development expenses examines the monies allocated to development projects.
3. Pending Bills are the bills awaiting to be settled by the county. It is usually represented in terms of absolute figures or as a percentage
4. Imprest refers to a fund used for small items of expenditure e.g. Petty cash
5. Asset register is a list of all assets belonging to the county.



INTRODUCTION

The Auditor General is mandated by the **Article 229 of the constitution of Kenya, the Public Audit Act, 2015**, to audit and report on the use of public resources by all entities funded from public funds including the national government, county governments, the Judiciary, Parliament, statutory bodies/ state corporations, commissions, political parties funded from public funds, other government agencies and any other entity funded from public funds. Consequently, the auditor general has conducted an audit of the financial statements in accordance with the International Standards of Supreme Audit Institutions (**ISSAIs**), and has issued an auditor's report for the year 2017/2018. It is from this report that we have analysed the Nairobi City County performance.



NAIROBI COUNTY ASSEMBLY



OPINION:
Adverse



TOTAL BUDGET:
KSh 1,727,660,782



RECURRENT EXPENDITURE:
KSh 1,309,844,132



DEVELOPMENT EXPENDITURE:
KSh 417,816,650



DOMESTIC TRAVEL COSTS:
Not Available



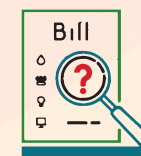
FOREIGN TRAVEL COST: Not Available



UNSUPPORTED EXPENDITURE:
Not Available.



PENDING BILLS: KSh 31,865,711



UNSUPPORTED PENDING BILLS:
Ksh 31,865,711



OUTSTANDING IMPRESTS:
Ksh 117,830,865

HIGHLIGHTED ISSUES

The County Assembly had an *adverse* opinion.

1. Weakness in Financial Reporting

- Failed to maintain an asset register.
- The management did not provide a trial balance to support figures reflected in the financial statements for 2017/2018
- A total payment of Ksh 211,351,680 was made outside IFMIS in the FY 2017/18.
- The county failed to prepare bank reconciliations from the 5 bank accounts disclosed in the financial statements contrary to regulations 90 of the County Public Finance Management (County Government) Regulation 2015.

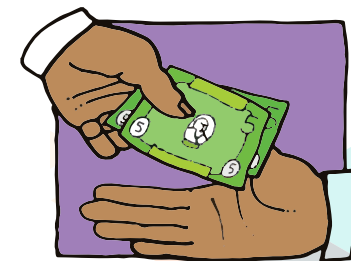


2. Management of Imprest

- Financial statements reflect Ksh 117,830,865 against outstanding imprests. However, the IFMIS ledger reflects Ksh 206,907,033 against the same resulting to a difference of Ksh 89,076,168 which was unreconciled. The County should give a reason for the big difference.

3. County Level Wage Bill

- The expenditure on compensation of employees of Ksh 641,042,692 represents 44% of the total receipts which exceeded the 35% limit as per **Article 25(1) (b) of the County Public Finance Management (County Government) Regulation 2015** which stipulates that county wages should not exceed 35%.



NAIROBI COUNTY EXECUTIVE



OPINION:
Disclaimer



TOTAL BUDGET:
KSh 33,614,180,418



RECURRENT EXPENDITURE:
KSh 22,487,760,931



DEVELOPMENT EXPENDITURE:
KSh 1,413,319,060



DOMESTIC TRAVEL COSTS:
Not Available



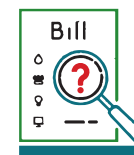
FOREIGN TRAVEL COST: Not Available



UNSUPPORTED EXPENDITURE:
Ksh
2,868,803,676



PENDING BILLS:
KSh 66,
576,014,141



UNSUPPORTED PENDING BILLS:
Not available



OUTSTANDING IMPRESTS: Ksh
78,385,142



COUNTY REVENUE FUND BALANCE:
Ksh 5,393,110,715



REVENUE COLLECTED:
KSh 10,157,594,130



ASSET REGISTER DISCLOSED: Ksh
19,804,558,953



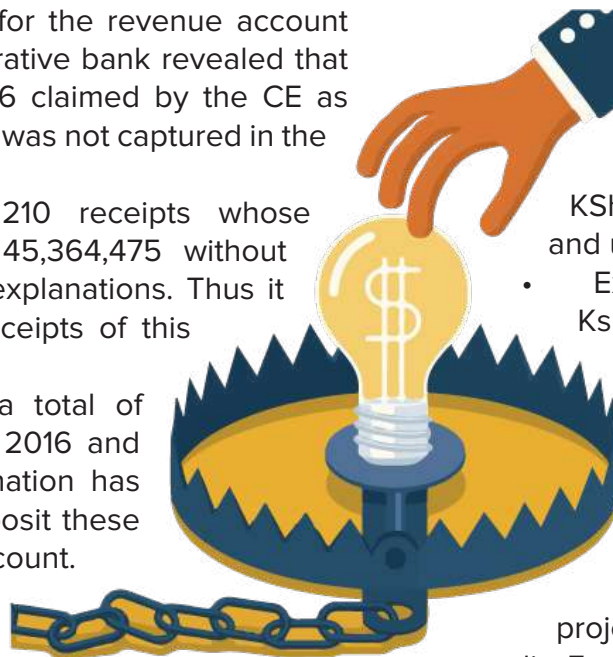
REVENUE GENERATED RECEIPTS: Ksh
8,301,362,450

HIGHLIGHTED ISSUES

The county Executive recorded a disclaimer opinion.

1. *Unsupported and Unauthorized Transactions*

- The county withdrew Ksh 206,385,752 for unspecified payments which were not supported by appropriated authority and documentation.
- Further, various withdrawals of Ksh 3,000,000 from Nairobi city county trust account at KCB BANK in respect of an officer have not been explained and neither was it supported with documents.
- Review of bank statements for the revenue account no 1141232396600 at cooperative bank revealed that receipts of Ksh 3,012,201,436 claimed by the CE as having been a direct banking was not captured in the statements.
- Nairobi County canceled 210 receipts whose combined value was KSh 45,364,475 without supporting documents and explanations. Thus it was not established how receipts of this amount were accounted for.
- Receipt of cheques show a total of Ksh 1,436,184 between July 2016 and 31st August 2017, no explanation has been given for failure to deposit these cheques into the revenue account.
- Property rates of Ksh 3,125,001,122 were adjusted to clear/reduce the outstanding property rate



balances however documentary evidence specifying the adjusting amount indicated were not provided for audit review.

- IFMIS payment details reveal an amount of Ksh 9,012,746 was made to Nairobi city county revenue account. However, the purpose and nature of cash payment to own the account have not been explained.
- The County spent KSh 1,435,678,846 in respect of acquisition of assets in 2017/18. An amount of KSh 873,837,452 was verified as paid however Ksh 561,841,394 had no supporting documents.
- Payments totaling to Ksh 11,977,570 were excluded from IFMIS for unexplained reasons.
 - Payment vouchers of Ksh 865,573,662 were not supported by relevant documentation and appropriate authority contrary to the **Article 104 of the county Public Finance Management (County Government) Regulation 2015.**
 - The fixed asset register reflected an asset balance of KSh 19,804,558,953. However, the county failed to maintain and update the register.
 - Expenditure on temporary workers' wages increased from Ksh 8,465,010 in 2016/17 to Ksh 21,427,780 in 2017/18 by KSh 12,962,770. However, supporting documents on hire for the workers were not availed for audit review.
 - 13 contractors were irregularly awarded contracts of KSh 419,847,395. However, no supporting documents were provided in support of the contract.
 - An expenditure of Ksh 18,750,000 was spent for casual payments under the Nairobi beautification project; however, relevant documents were not availed for audit. Further payment vouchers revealed that Ksh 640,000 was processed in respect of surrender for imprests for beautification

programme. Additionally, it was observed that undetermined expenditure was incurred in the purchase of materials for purposes of beautification and no records were provided to show the cost.

2. **Non-compliance of Public Finance Act, 2012**

- IFMIS payment schedule revealed that various suppliers were irregularly paid through cash a total of KSh 381,841,224 contrary to **Section 104 (1) of PFM act 2012** which requires the county treasury to ensure proper management and control of and accounting finances of the county government.
- The CE KCB bank current account No.1159076065 was overdrawn by Ksh 3,794,555 and no documentary evidence was produced for audit review to confirm prior approval of the overdraft by the county treasury or a board of the county government as required under **Section 119 (40) of the PFM act**.
- Irregular withdrawals from revenue account of Ksh 6,022,896,123 contrary to the provision of Article 207 (3) of the constitution and **Section 109 (2) of the PFM act 2012** and **regulation 63 (4) of County Public Finance Management (County Government) Regulation 2015** which requires the county executive to bank all revenue collected or received into the county revenue fund except as provided for in the law
- The county spent an amount of Ksh 1,413,319,060 which is 6% on development out of the total combined actual expenditure of Ksh 23,901,079,991 contrary to **Section 25 (1) (g) of county Public Finance Management (County Government) Regulation 2015** that requires at least 30% be spent on development projects. Accordingly, the

County failed to achieve 30% allocation on development budget as required.

- Financial statements reflect Ksh 12,982,011,406 on compensation of employees which is 49.4% of the county government total revenue which exceeds 35% limit prescribed under **25 (1) (b) of the County Public Finance Management (County Government) Regulation 2015**.

- Under the year of review the county operated without an authorized staff establishment contrary to Section 119 of the county Public Finance Management (County Government) Regulation 2015 thus it was not possible to ascertain how the budgetary allocations for personnel costs during the year were determined in the absence of detailed costing of human capital plan as approved by the county public service board and county treasury.

- The county paid Ksh 1,725,488,939 to AAR Insurance for staff medical insurance, However,



the payment was paid outside the IFMIS system which is contrary to Section 109 (1) of county Public Finance Management (County Government) Regulation 2015.

- The county through the office of the governor incurred confidential expenditure of Ksh 14,405,900 due to claims of challenges in security with no further explanation. However, this is contrary to Section 101 (5) (6) of the Public Finance Management (County Government) Regulation 2015 national government regulations which allows only national government entity to incur confidential expenditure.

3. *Lack of Transparency*

- The county failed to disclose bank account balances of Ksh 3,045,914,596 thus completeness and accuracy of cash and cash equivalents balance could not be confirmed.
- Financial statement receipts revealed an amount of Ksh 401,201,575 was received in respect to Kenya Roads Board (KRB) roads maintenance levy fund receipts. However, records indicate an amount of Ksh 553,745,528 was received and not the amount earlier mentioned thus having an underestimation of Ksh 152,543,953.
- The CE had 26 M-PESA pay bill numbers for receiving OSR but were not disclosed in the financial statements which is contrary to regulation 82 (4) of the county Public Finance Management (County Government) Regulation 2015. Further, the m p e s a statements were not availed for audit review.
- The county paid a vendor Ksh 152,055,313 for collecting revenue for the county government. However, documents were availed in support of the payment. The contract agreement revealed that the vendor will be paid 4.5% of all funds collected through Jambo pay, however, absence of documents showing services delivered by the vendor made it impossible to know the amount of revenue collected or deducted at source by the firm.
- The management denied the auditors access to jambopay system and trust fund managed by the accounting firm; PKF, in various banks
- Payment vouchers for an expenditure of Ksh 2,456,754 were not produced for audit review.
- Four social halls in Kariobangi, Dandora Phase II, III and V were being hired out and generated revenue but was illegally used at source and not accounted for.
- Lease agreements for parks and open spaces, Uhuru park boating service, Jukwa lounge and safari bowling restaurant were expired thus revenue from these facilities was either not generated or generated but used illegally as there was no evidence of deposit into the revenue account in the year under

LACK OF
TRANSPARENCY



review.

- Records revealed that Dagoretti Sub-County hospital revealed that amounts of Ksh 3,436,950 and Ksh 3,127,216 were collected and banked respectively. However, an amount of Ksh 309,734 was spent at source due to shortage of essential and basic requirements.
- Audit reports for FY 2016/17 indicate accounts receivables of KSh 307,697,852,532 however, the county provided receivable lists of Ksh 1,803,990,440 in the year under review with no evidence on how the difference of Ksh 305,893,862,092 of the debts was cleared. Further, the county failed to provide documentary evidence in respect of sundry Revenue Shortfalls debtors, estates other than Eastland, tenants purchase scheme, loading zones, single business permits and way leave fees.
- The statement of assets and liabilities reflects outstanding imprests balance of Ksh 78,385,142 while the ledger reflects an amount of Ksh 96,439,550 resulting in reconciled variance of Ksh 18,054,408.

4. *Weaknesses in financial reporting and Accounting Variances*

- Statements of receipts reflect an amount of Ksh 10,157,594,130 against county own generated receipts while banking records in respect to Jambo pay reflect receipts of Ksh 8,301,362,450 resulting to unexplained variance of Ksh 1,856,231,679.
- The county failed to collect revenue of Ksh 141,023,084 which was as mentioned: rental arrears and service, single business permit in Dandora and Roysambu and market rental stalls. The county should give a reason for failing to correct revenue which would be used to improve service delivery in the county.
- The county spent Ksh 20,865,348,432 on compensation of employees, acquisition of assets and use of good and services. However, the ledger provided in support of the expenditure reflected Ksh 17,212,814,158 resulting in unexplained variances of KSh 3,652,534,274. Further, this expenditure had unsupported re-allocations of Ksh 489,645,787. In the total amount, Ksh 11,808,697 was wrongly charged to the expenditure head of acquisition of assets.
- The county failed to prepare financial statements for the Nairobi city liquor licensing board for 2 consecutive years. Further, bank statements for 2 consecutive years were not availed for audit review.
- Statement of receipts reflect bank charges amounting to Ksh 101,779,511 and unbudgeted debt repayment to KRA agency notice of Ksh

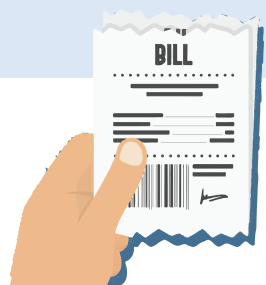


350,000,000. These payments were made outside the IFMIS contrary to regulation 109 of county Public Finance Management (County Government) Regulation 2015. Further bank statements for 16 out of 37 bank accounts provided for audit review reflected cumulative bank charges and loan interest of Ksh 292,135 and 50,061,431. The Validity of the remaining 21 could not be confirmed due to absence of bank statements.

- An expenditure of Ksh 421,287,000 in respect to scholarships and other educational benefits lacked supporting documents.

5. Budgetary gaps

- The county planned to collect Ksh 80,000,000 at inoculation centre at city hall however actual revenue of Ksh 56,000,000 was collected. Further the centre failed to maintain an inventory register to record quantities of vaccines and other medical received, used and spoilt.
- The county had a shortfall of Ksh 7,071,870,630 (41%) against the projected revenue of Ksh 17,229,464,760. Further revenue collected reduced from the previous year collection by Ksh 775,607,344. Under performance in own source revenue collection was at Kshs.10.11 billion having the annual target at 58.7 per cent
- High wage bill that has increased by 10.5 per cent from Kshs.13.42 billion in FY 2016/17 to Kshs.14.84 billion in FY2017/18
 - Low absorption of development budget. In the reporting period, the County attained an absorption rate of 26.1 per cent, which was a decrease from 33.4 per cent attained in FY 2016/17.



6. Pending Bills

- Financial statements reflect pending accounts payable of Ksh 10,059,679,063 or 18% from the previous year's balance of Ksh 56,516,365,078. Included in the amount is Ksh 3,024,371,706 for an outstanding loan.

7. Procurement and Contracting Issues

- The county awarded a tender at a contract of Ksh 61,230,658 to grade and gravel roads in Tasia and Embakasi estate at a unit rate of KSh 10,500,000 per km. However, supporting documents were not availed for audit.



Further physical verification revealed that it was poorly done and had potholes despite the contractor still being on site.

- A supplier was paid Ksh 9,200,000 for the supply of electrical items, however no supporting documents were availed for audit.
- The county paid a contractor Ksh 4,526,275 for supply, delivery, installation, testing and commissioning of an electronic weighbridge and stand by generator at Dandora dumpsite. However physical verification revealed that some parts were missing and the old weighbridge was still in use.
- Physical verification of the construction of public transport facility at Mama Lucy hospital revealed that the project was 75% complete but there was no contractor on site and the contract had expired.
- The county paid an undisclosed law firm Ksh 15,000,000 for services purportedly rendered in respect of the staff medical insurance cover. Even though payments made to AAR are Ksh 1,725,488,939, no explanation has been given for paying Ksh 652,786,602 in excess of the contract sum of Ksh 1,072,702,337.
- The county paid a contractor Ksh 45,361,835 being 77% of the total contract sum to construct Korogocho motor able and access road. However, inspection revealed that the project was 80% complete and there was no activity on site due to delay in payment. Additionally, the bridge was poorly constructed and thus was unsafe and the access road had not been built.
- Payments of Ksh 202,996,053 were made to 11 contractors in regards to collection and disposal of garbage waste at Dandora dumpsite. However, some firms opted to collect 84,317 tonnes of garbage from areas they were not prequalified and contracted to collect garbage and were paid Ksh 162,092,407.
- Contracts for 8 projects whose combined contract sum Ksh 592,852,611 were awarded and some payments made however the projects were abandoned before they were completed. The projects include: construction of perimeter wall at mji wa huruma, construction of 17 ECDEs, rehabilitation of Gaturo road and access roads to courts in Buru Buru estate, rehabilitation of St, Martin catholic church road Mathare, construction of access roads at Kayole spine road, rehabilitation of Ndwaru road in Dagoretti south, construction of Karen bridge Langa'ta and rehabilitation of mother Teresa road in Ruaraka.

8. *Flaws in County Health Services*

- Mama Lucy hospital staff establishment indicates that the authorized number is 752 while the actual number is 468 resulting in a deficit of 284 spread across various departments. However, instead of filling the gaps the county opted to engage 94 casuals whose expenditure during the year under review was KSh 10,275,878. This is contrary to Section 63 (1) of county government act 2012.
- Records reveal that health facilities were supposed to receive Ksh 107,252,922 during the year under review; however, money was not disbursed to the health facilities. Additionally, no reason has been given for failure to prepare annual work plans by the health facilities. Records reveal that Ksh 1,591,905,004 was budgeted for TB control,



malaria control, family planning, maternal child health, environmental health, county referral hospitals, health centres and dispensaries, health policy, planning and financing health committees. However only KSh 347,150,717 was utilized resulting in unexplained expenditure of Ksh 1,244,754,287.

- Analysis of various orders made by health facilities for pharmaceutical drugs and non –pharmaceuticals items between the month of September and December 2017 revealed that no drugs and non-pharmaceutical items were received by facilities.
- Audit revealed that the facilities did not receive funding supplies from KEMSA during the year under review, resulting in stocking of expired drugs whose value was not determined due to failure to carry out stock take.
- The medical certificate unit failed to issue medical certificates to food handlers due to lack of funds for purchase of laboratory commodities, certificate books, toners and stationery, further audit revealed that medical certification had been outsourced to 5 laboratories; however no documentary evidence was provided to show how they were identified.



ACHIEVEMENTS



The Nairobi City County has embraced the County Budget and Economic Forum (CBEF) and worked with other organised groups including Civil Societies and Religious Societies to improve the state of the county.



The Nairobi City County has also incorporated Public participation in the policy making process by advertising public participation fora and holding said fora.



The Nairobi City County has introduced the automation of revenue collection where **85 new revenue streams** were automated.



The County has also managed to complete payments of all employee emoluments to avoid accumulation of statutory debts.



The City County has taken on the practice of seeking approval from COB before making any payments.

RECOMMENDATIONS

1. The County government should adhere to Section 107 (2)b of the Public Finance Management Act 2012 that requires that over the medium term a minimum of 30% of the County government budget shall be allocated to development expenditure.
2. Accounting officers in the county should adhere to proper documentation and reporting standards recommended by the Public sector accounting boards as stipulated in the Public Finance management Act.
3. The County government should adhere to Section 136(1) of the Public Finance Management Act 2015 which requires counties to maintain and have an updated fixed asset register.
4. IFMIS payment schedule revealed that various suppliers were irregularly paid through cash a total of Ksh 381,841,224 which was in breach of the law. The County government should adhere to Section 104 (1) of PFM act 2012 which requires the county treasury to ensure proper management and control of and accounting finances of the county government.
5. The County government should adhere to Section 25 (1) (b) of the County Public Finance Management (County Government) Regulation 2015 which stipulates that compensation of employees shall not exceed 35% of the county government total revenues which was exceeded by Nairobi County government by 14%.It is a great concern that 49% of the revenue was use for remuneration of workers at the expense of development projects.
6. All payment should be made through IFMIS and there should be no variance between IFMIS and bank account statements as required by Section 93 (5) of the PFM Act 2012 and Section 109 (1) of the county Public Finance Management (County Government) Regulation 2015 .
7. The Public investment Management Guidelines should guide project implementation at county level to ensure proper project implementation and clear monitoring and evaluation frameworks.

REFERENCES

1. Nairobi County Auditor General Reports, 2017/18
2. Public Audit Act, 2015
3. Public Finance Management Act, 2012
4. Public Procurement Act, 2015
5. Public Finance Management County Government Regulations , 2015
6. County Government Act, 2012



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