

GOVERNMENT OF NAIROBI CITY COUNTY



THE NAIROBI CITY COUNTY ASSEMBLY

OFFICE OF THE CLERK

5TH SESSION

NBI CA. PLC. 2017 / (022)

30th March, 2017

PAPER LAID

Pursuant to Article 229 (7) of the Constitution I beg to lay the following Paper on the Table of the Assembly, today Thursday 30th March, 2017.

THE REPORT OF THE AUDITOR -GENERAL THE FINANCIAL STATEMENTS OF NAIROBI CITY COUNTY ASSEMBLY SERVICE BOARD CAR LOAN SCHEME FUND FOR THE YEAR ENDED 30th JUNE 2016

(Leader of the Majority Party)

Copies to:
The Speaker
The Clerk
Hansard Editor
Hansard Reporters
The Press

Approved.
Hon. Speaker
[Signature]
30/3/17

Paper laid
by
Hon. Jaffer Kasim
[Signature]
CAII
30/03/2017

REPUBLIC OF KENYA

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NAIROBI HUB
P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

NH/NRB/NCCA/IML/29

Mr. Jacob Ngwele
Clerk, County Assembly
Nairobi County
P.O Box 45844-00100
NAIROBI



13 March 2017

*faxed by
Hon. Jeff
Kerem
P.
CA II
P.*

Dear Mr. Ngwele,

REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF NAIROBI CITY COUNTY ASSEMBLY SERVICE BOARD CAR LOAN SCHEME FUND FOR THE YEAR ENDED 30 JUNE 2016

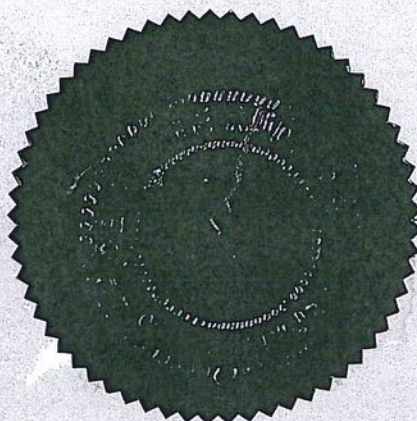
I transmit the report on the examination and audit of the financial statements of Nairobi City County Assembly Service Board Car Loan Scheme Fund for the year ended 30 June 2016 in accordance with the provisions of Article 229 (7) of the Constitution of Kenya for the necessary action as required by Article 229 (8) of the Constitution.

Yours sincerely,

Sylvester N. Kiini
Deputy Auditor General
For: AUDITOR-GENERAL

Copy to: His Excellency
Dr. Evans Kidero
Governor
Nairobi County
P.O Box 30075 -00100
NAIROBI

1. The first part of the report discusses the importance of maintaining accurate records of all transactions. It emphasizes the need for a systematic approach to record-keeping, including the use of standardized forms and the regular review of records to ensure their accuracy and completeness.



THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
NAIROBI CITY COUNTY ASSEMBLY
SERVICE BOARD CAR LOAN
SCHEME FUND**

**FOR THE YEAR ENDED
30 JUNE 2016**



NAIROBI CITY COUNTY



COUNTY ASSEMBLY SERVICE BOARD

CAR LOAN SCHEME FUND

FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2016**

**Prepared in accordance with Accrual Basis of International Public Sector
Accounting Standards (IPSAS)**

NAIROBI CITY COUNTY ASSEMBLY
Car Loan Scheme Fund
Financial Statements
For the year ended June 30, 2016 (Kshs'000)

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NAIROBI CITY COUNTY ASSEMBLY
Car Loan Scheme Fund
Financial Statements
For the year ended June 30, 2016 (Kshs'000)

NAIROBI CITY COUNTY ASSEMBLY KEY INFORMATION AND MANAGEMENT

(a) Background information

County Assemblies are established pursuant to Article 176(1) of the Constitution of Kenya. Accordingly section 12 of the County Governments Act establishes County Assembly Service Boards for each County government. Among the functions bestowed upon County Assembly Service Boards is preparation of annual financial estimates of expenditure, exercising budgetary control and performing other functions prescribed by national legislation. Section 116 of the Public Finance Management Act, 2012 empowers the County Executive Committee Member for Finance to establish County Public Funds with the approval of the County Executive Committee and the County Assembly. Subsection 7 requires the administrator of a County Public Fund to prepare Accounts for each financial year and submit them to the Auditor General.

Arising from the above provisions and as advised by the Salaries and Remuneration Commission (SRC) on the benefits to be enjoyed by the Members of the County Assemblies, vide circular ref SRC/TC/CGOVT/3/16 dated 27th November, 2013, the Nairobi City County Executive Committee Member for Finance and Economic Planning authorised the establishment of the Car Loan Scheme Fund with the approval of the County Assembly. The Clerk of the County Assembly, being the Accounting Officer of the Assembly was subsequently appointed the administrator of the fund.

(b) Key Management

The County Assembly's day-to-day management is under the County Assembly Service Board.

(c) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2016 and who had direct fiduciary responsibility was Jacob Ngwele, the Clerk and the Accounting Officer of the County Assembly.

(d) Fiduciary Oversight Arrangements

The fiduciary oversight arrangement was as offered by;

- The County Assembly's Public Accounts Committee
- Kenya National Audit Office
- Controller of Budget

NAIROBI CITY COUNTY ASSEMBLY
Car Loan Scheme Fund
Financial Statements
For the year ended June 30, 2016 (Kshs'000)

(e) Nairobi City County Assembly Headquarters

P.O. Box 45844-00100

City Hall Building

Second floor

Mama Ngina Street

Nairobi, KENYA

(f) Nairobi City County Assembly Contacts

Telephone: (254) 020 2216151

E-mail: clerk@nrbcountyassembly.go.ke

Website: www.nrbcountyassembly.go.ke

(g) Nairobi City County Assembly Bankers

Car Loan Scheme Fund Administrator Bank

Cooperative Bank of Kenya Ltd

City Hall Branch

P.O.BOX, 44805-00100

Nairobi

(h) Independent Auditors

Auditor General

Kenya National Audit Office

Anniversary Towers, University Way

P.O. Box 30084

GOP 00100

Nairobi, Kenya

(i) Senior Legal Counsel

Office of the Clerk

Thro' Qualified Legal Advocates

P.O.Box. 45844 – 00100

Nairobi

NAIROBI CITY COUNTY ASSEMBLY
Car Loan Scheme Fund
Financial Statements
For the year ended June 30, 2016 (Kshs'000)

FORWARD BY THE CLERK TO THE COUNTY ASSEMBLY

The Nairobi City County Assembly Car Loan Scheme Fund is a revolving fund established pursuant to the Salaries and Remuneration Circular no SRC/TS/WB/3/14 of 14th February 2014. Section 167 of the Public Finance Management Act 2012 mandates the Administrator of Public Funds with preparation of Annual Financial Statements.

For proper management of the Fund and as advised by the Salaries and Remuneration Commission in the Circular under reference, the Nairobi City County Assembly adopted *Public Finance Management (Nairobi City County Car Loan Scheme Fund) Regulations 2014* to guide operationalization of the Fund. As advised by the Salaries and Remuneration Commission and as provided for under regulation 16 of the said Regulations, the County Assembly Service Board appointed a banking Institution to manage the fund.

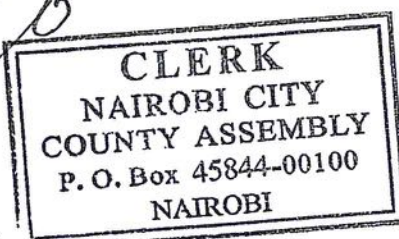
The Fund started operations in June 2014 with an initial amount of ksh.254M. Since then a total of 127 members of the County Assembly made borrowings. As at the end of the year under reporting, a total amount of Ksh.256M had been borrowed from the fund out of which Ksh.166M had been paid back and an amount of Ksh.90M remained outstanding.

Until 31st July 2015, the Fund was under management of a financial institution, Family Bank Ltd. The role of the bank was to provide administration services for the fund. However, the Bank failed to honour its part of the contractual obligations leading to termination of administrative services with effect from 31st July 2015. Since then the fund has been internally administered in the County Assembly by the office of the Clerk.

The Salaries and Remuneration Commission in its circular ref SRC/ADM/CIR/1/13 Vol.III(128) dated 17th December 2014 provided guidelines for access of Car Loan and Mortgage benefits by all state and public officers. Arising therefrom the County Assembly Service Board approved and

NAIROBI CITY COUNTY ASSEMBLY
Car Loan Scheme Fund
Financial Statements
For the year ended June 30, 2016 (Kshs'000)

adopted the Staff Loans Policy Paper on 17th March 2015. On 20th August 2015 the Board approved and adopted the guidelines on internal administration of the Car loan and Mortgage Scheme Funds following termination of administration services with the then administrator, Family Bank Ltd with effect from 31st July 2015.



CLERK TO THE COUNTY ASSEMBLY

NAIROBI CITY COUNTY ASSEMBLY

Car Loan Scheme Fund**Financial Statements****For the year ended June 30, 2016 (Kshs'000)**

STATEMENT OF FUND ADMINISTRATOR RESPONSIBILITIES

Section 116 (7) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the administrator for a county public fund shall prepare financial statements in respect of that fund.

The administrator in charge of the Nairobi City County Assembly Car Loan Scheme Fund is responsible for the preparation and presentation of the fund's financial statements, which give a true and fair view of the state of affairs of the fund for and as at the end of the financial year ended on June 30, 2016. This responsibility includes:

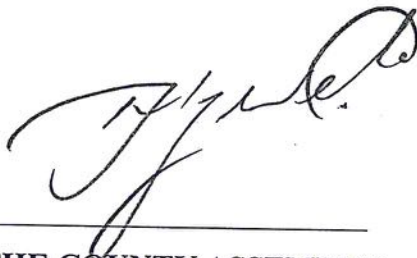
- (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
- (ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity;
- (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud;
- (iv) Safeguarding the assets of the fund
- (v) Selecting and applying appropriate accounting policies; and
- (vi) Making accounting estimates that are reasonable in the circumstances.

The Administrator of the Nairobi City County Assembly Car Loan Scheme Fund accepts responsibility for the fund's financial statements, which have been prepared using appropriate accounting policies in accordance with International Public Sector Accounting Standards (IPSAS). The Administrator is of the opinion that the fund's financial statements give a true and fair view of the state of fund's transactions during the financial year ended June 30, 2016, and of the fund's financial position as at that date. The Administrator of the Nairobi City County Assembly Car Loan Scheme Fund further confirms the completeness of the accounting records maintained for the fund, which have been relied upon in the preparation of the fund's financial statements as well as the adequacy of the systems of internal financial control.

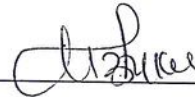
NAIROBI CITY COUNTY ASSEMBLY
Car Loan Scheme Fund
Financial Statements
For the year ended June 30, 2016 (Kshs'000)

Approval of the financial statements

The Fund's financial statements were approved and signed by the Accounting Officer on 26th September 2016.



CLERK TO THE COUNTY ASSEMBLY
(FUND ADMINISTRATOR)



PRINCIPAL ACCOUNTANT



OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON NAIROBI CITY COUNTY ASSEMBLY SERVICE BOARD CAR LOAN SCHEME FUND FOR YEAR ENDED 30 JUNE 2016

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Nairobi City County Assembly Service Board Car Loan Scheme Fund set out on pages 9 to 14, which comprise the statement of financial position as at 30 June 2016 and the statement of income and expenditure, statement of cash flows 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 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.

Management's Responsibility for the Financial Statements

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

The management is also responsible for the submission of its financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report 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. The audit was conducted in accordance with International Standards of Supreme Audit Institutions. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's

Report of the Auditor-General on the Financial Statements of Nairobi City County Assembly Service Board Car Loan Scheme Fund for the year ended 30 June 2016

preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

Basis for Adverse Opinion

1. Accuracy of Financial statements

1.1 Cash and Cash Equivalents

The statement of financial position as at 30 June 2016 reflects a cash and cash equivalents balance of Kshs.169,109,582, (2015 Kshs.79,106,000) which differs with the bank statement balance of Kshs.155,607,560 by Kshs.13,502,022. The Fund management did not prepare bank reconciliation statements for the whole year hence it was not possible to ascertain whether all transactions and bank balances during the year under audit were fairly stated. Information available, indicates that the difference is a result of:- unsupported adjustment for interest receivable from Family bank, unremitted member deductions and loan advanced in June amounting to Kshs.3,376,633, Kshs.7,805,389, and Kshs.2,320,000 respectively. The items remained unbanked in the subsequent months.

1.2 Debtors

The statement of financial position and as disclosed under note 2 to the financial statements reflects debtors balance of Kshs.93,600,000 (2015 Kshs.179,104,000). Information available indicates that this balance is net of all the payroll deductions during the year totaling Kshs.92,324,896 of which only Kshs.76,503,342 was remitted to the Fund bank account as of 30 June 2016. The unremitted balance Kshs.15,821,554 due from the County Assembly has neither been incorporated in the fund financial statements as debtors nor disclosed. Further the amount received from the initial Fund manager in July the following year of Kshs 5,808,038 has not been disclosed in these financial statements. In view of the above, it was not possible to confirm the accuracy of debtors Kshs.93,600,00 figure as at 30 June 2016.

1.3 Revenue

The statement of revenue and expenditure and as explained under note 3 to the financial statements reflects interest accrued income of Kshs.778,000. This amount excludes interest earned on the Fund balance during the year up to April 2016 of Kshs.1,540,851. International Public Sector Accounting Standards (Accrual Basis) requires that income is recognized when the earning process is substantially complete and not merely when paid. In the circumstances, it was not possible to confirm the accuracy and completeness of income as reported.

2. Non-Compliance with the Fund Regulations

As noted in the previous year, the Car Loan Scheme as of 30 June 2016 disbursed loans to 127 MCAs with an outstanding balance of Kshs.88,611,119. However, the following irregularities were observed in the operations of the Car Loan Fund against the stipulated regulations during the period under review:-

- (i) The loans disbursed were not supported with valuation reports and documentary evidence to support financing of second hand cars and new vehicles, respectively.
- (ii) Registration / log books in joint registration names between MCAs (borrower) and the County Assembly were not availed for the audit; and
- (iii) Monthly loan deductions from the payroll for seven MCAs have not been effected for July, August, September, October, November and December, 2016.

No justification was provided for the irregularities. In the circumstances, it is not possible to confirm whether the loans were disbursed for the intended purpose and as to its recoverability in full within the life time of the current Assembly.

Adverse Opinion

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion paragraph, the financial statements do not present fairly, the financial position of Nairobi City County Assembly Service Board Car Loan Scheme Fund as at 30 June 2016, and of its financial performance and its cash flows for the year ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and do not comply with the Public Finance Management Act, 2012.



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

Nairobi

15 February 2017



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NAIROBI CITY COUNTY ASSEMBLY

Car Loan Scheme Fund

Financial Statements

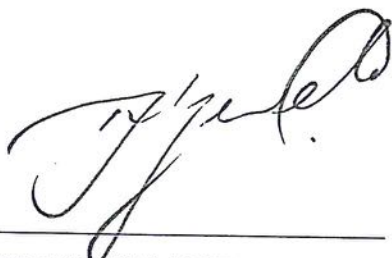
For the year ended June 30, 2016 (Kshs'000)

REPORT OF THE INDEPENDENT AUDITORS

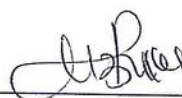
NAIROBI CITY COUNTY ASSEMBLY
Car Loan Scheme Fund
Financial Statements
For the year ended June 30, 2016 (Kshs'000)

STATEMENT OF INCOME AND EXPENDITURE
FOR THE YEAR ENDED 30TH JUNE 2016

	Notes	2016 Ksh. '000'	2015 Ksh. '000'
<u>Income</u>			
Loan Interest receivable	4	3,725	6,327
Interest Accrued in the fund	3	778	2,213
Total Receipts		4,503	8,540
<u>Expenditure</u>			
Administrative Fees Paid		-	6,327
Bank Charges		4	3
Total Expenditure		4	6,330
Surplus/ (Deficit)		4,499	2,210
Surplus/ (Deficit) B/F		2,210	-
Surplus/ (Deficit) C/F		6,709	2,210



CLERK TO THE COUNTY ASSEMBLY
(FUND ADMINISTRATOR)



PRINCIPAL ACCOUNTANT

NAIROBI CITY COUNTY ASSEMBLY**Car Loan Scheme Fund****Financial Statements****For the year ended June 30, 2016 (Kshs'000)****STATEMENT OF FINANCIAL POSITION
AS AT 30TH JUNE 2016**

	Notes	2016 Ksh. '000'	2015 Ksh. '000'
<u>Non-Current Assets</u>	1	-	-
<u>Current Assets</u>			
Cash and Cash Equivalents		169,109	79,106
Debtors	2	<u>93,600</u>	<u>179,104</u>
Total Assets		<u>262,709</u>	<u>258,210</u>
<u>Financed By</u>			
Car Loan Fund Account	6	256,000	256,000
Income and Expenditure Account			
(Accumulated Surplus/ (Deficit)	4	<u>6,709</u>	<u>2,210</u>
Net Value of the Fund		<u>262,709</u>	<u>258,210</u>


CLERK TO THE COUNTY ASSEMBLY
(FUND ADMINISTRATOR)
PRINCIPAL ACCOUNTANT

NAIROBI CITY COUNTY ASSEMBLY
Car Loan Scheme Fund
Financial Statements
For the year ended June 30, 2016 (Kshs'000)

CASH FLOW STATEMENT
FOR THE YEAR ENDED 30TH JUNE 2016

	Notes	2016 Ksh. '000'	2015 Ksh. '000'
<u>Cash Flows from Operating Activities</u>			
Cash Receipts			
Loan Interest Paid by Members	4	3,725	6,327
Interest paid into the fund		-	-
Total cash received from Operating Activities 'a'		<u>3,725</u>	<u>6,327</u>
Cash Payments			
Administrative Fees Paid		-	6,327
Bank Charges paid		<u>4</u>	
Total Payments 'b'		<u>4</u>	<u>6,327</u>
Net Cash from Operating Activities 'a' - 'b' = 'c'		<u>3,721</u>	<u>-</u>
<u>Cash Flows from Investing Activities</u>			
Loans Paid by Members		88,599	79,109
Loans advanced to Members		(2,320)	(72,000)
Net Cash flows from Investing Activities 'd'		<u>86,279</u>	<u>7,109</u>
<u>Cash Flows from Financing Activities</u>			
Cash Receipts from County Treasury		-	-
Cash paid to the County Revenue Fund		<u>-</u>	<u>-</u>
Net Cash flows from Financing Activities 'e'		<u>-</u>	<u>-</u>
Cash at the beginning of the period 'f'		<u>79,109</u>	<u>72,000</u>
Cash at the end of the period (c + d + e)	5	<u>169,109</u>	<u>79,109</u>

CLERK TO THE COUNTY ASSEMBLY
(FUND ADMINISTRATOR)

PRINCIPAL ACCOUNTANT

NAIROBI CITY COUNTY ASSEMBLY**Car Loan Scheme Fund****Financial Statements****For the year ended June 30, 2016 (Kshs'000)****STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30TH JUNE 2016**

	Car Loan Fund Account	Accumulated Surplus/Deficit	Total
	KSH (000')	KSH (000')	KSH (000')
Balance b/f 1st July 2015	<u>256,000</u>	<u>2,210</u>	<u>258,210</u>
Transfers into the fund	-		-
Surplus for the year	<u>-</u>	<u>4,499</u>	<u>4,499</u>
Balance as at 30 June 2016	<u>256,000</u>	<u>6,709</u>	<u>262,709</u>

NAIROBI CITY COUNTY ASSEMBLY
Car Loan Scheme Fund
Financial Statements
For the year ended June 30, 2016 (Kshs'000)

SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies adopted in the preparation of these financial statements are set out below:

1. Statement of compliance and basis of preparation

The financial statements have been prepared in accordance and comply with International Public Sector Accounting Standards (IPSAS) accrual basis. The financial statements comply with and conform to the form of presentation prescribed by the Public Sector Accounting Standards Board of Kenya.

The financial statements are presented in Kenya Shillings, which is the functional and reporting currency of the fund and all values are rounded to the nearest one thousand (Kshs'000). The accounting policies adopted have been consistently applied to all the years presented.

2. Budget

The Fund operates as a revolving fund and therefore the amounts deposited therein is available for borrowing at any time provided it is for the purpose of the fund. The fund however receives transfers from the County Treasury which are budgeted for in any financial year. The amounts received in the year under reporting was budgeted and approved as required by Law and as detailed in the Nairobi City County Assembly's Printed Estimates.

3. Subsequent events

The amount reported as payable by the administrator bank of Ksh.2,210,463 and the County Treasury amount of Ksh.2,000,000 has since been paid and is no longer owing.

NAIROBI CITY COUNTY ASSEMBLY**Car Loan Scheme Fund****Financial Statements****For the year ended June 30, 2016 (Kshs'000)****NOTES TO FINANCIAL STATEMENTS****1. Non-Current Asset.**

The Fund did not have any fixed assets as at the date of reporting.

2. Analysis of Debtors

Category	Amount Ksh.
a. Loan Debtors - Short Term	86,727,738
b. Loan Debtors - Longterm	1,883,381
c. Amount Due from County Treasury	2,000,000
d. Interest Income due from Family bank	2,210,463
e. Interest income due from Coop Bank	<u>778,203</u>
Total	<u>93,599,785</u>

3. Loan Interest Paid by Bank

This amount represents the growth of the amount deposited in the Fund bank account held in Cooperative Bank Limited. The amount had not been paid as at the date of reporting and is therefore included in the debtor's amount.

4. Loan Interest Paid by Members

Loan interest paid by members represents the interest charged on the members as guided by the Salaries and Remuneration Commission at 3% per year.

5. Cash and Cash equivalents

Cash and cash equivalents represent cashbook balance.

6. Fund Amount

The amount of Ksh.256M represent the total Fund amount as advised by the Salaries and Remuneration Commission based on the total number of Members of the County Assembly plus the Speaker which totals to 128 members each being eligible for a maximum Car Loan amount of Ksh.2,000,000. Ksh.2,000,000 remained unremitted by the County Treasury for the reporting period. This amount was however paid after the reporting date and is no-longer owing.

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