

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 ON THE FINANCIAL STATEMENTS OF
NAIROBI CITY COUNTY ASSEMBLY SERVICE BOARD MORTGAGE 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
Speaker
[Signature]
30/3/17

Paper laid
by
Hon. J. K. Karim
[Signature]
CA II
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/18

13 March 2017

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



*Paper laid
by
Hon. Jaffer
Kassam
CA
27/3/2017*

Dear Mr. Ngwele,

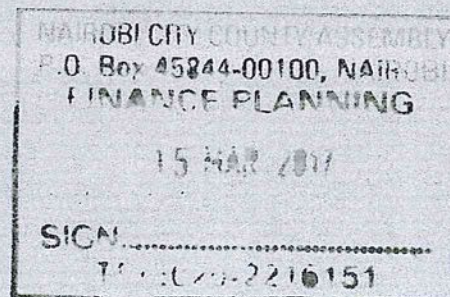
REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF NAIROBI CITY COUNTY ASSEMBLY SERVICE BOARD MORTGAGE SCHEME FUND FOR THE YEAR ENDED 30 JUNE 2016

I transmit the report on the examination and audit of the financial statements of Nairobi City County Assembly Service Board Mortgage 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.

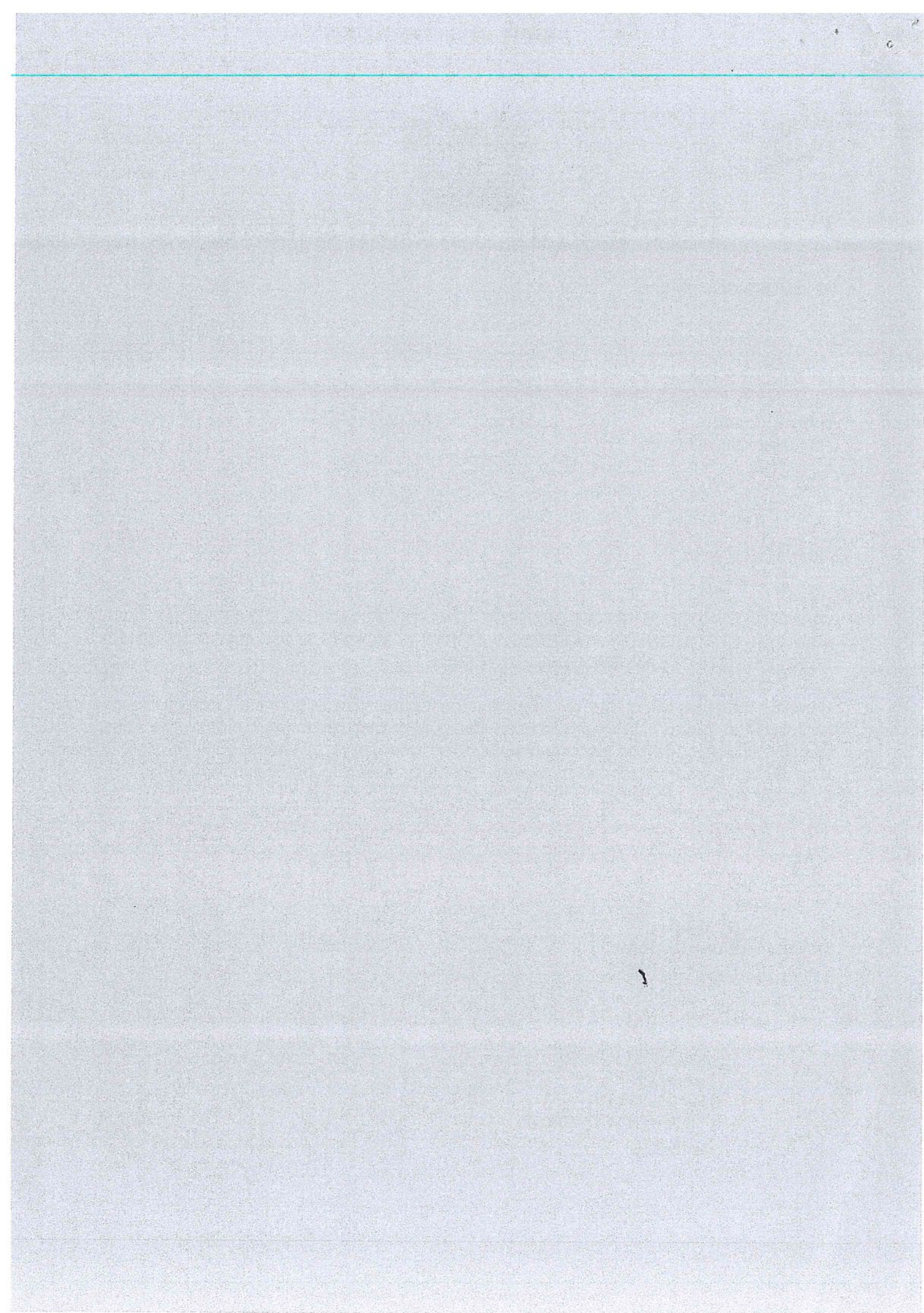
Yours sincerely,

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



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27/3*





OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
COUNTY ASSEMBLY OF NAIROBI CITY
SERVICE BOARD MORTGAGE SCHEME
FUND

FOR THE YEAR ENDED
30 JUNE 2016

NAIROBI CITY COUNTY



COUNTY ASSEMBLY SERVICE BOARD

MORTGAGE 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
Mortgage Scheme Fund
Financial Statements
For the year ended June 30, 2016 (Kshs'000)

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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 Mortgage 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
Mortgage 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@nrbcountryassembly.go.ke

Website: www.nrbcountryassembly.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
Mortgage 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 Mortgage 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 Mortgage 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.

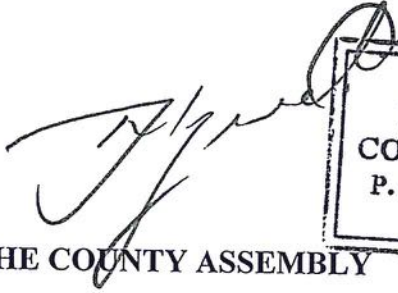
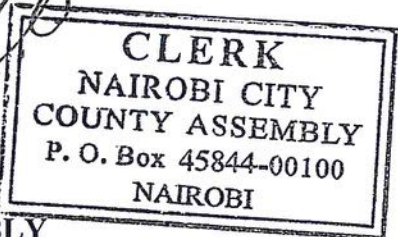
The Fund started operations in December 2014. It received an initial amount of Ksh.180M. In the year under reporting the fund received an additional amount of Ksh.116M. The total amount borrowed from the fund for the period it has been in operations is Ksh.144.24M out of which an Ksh.165.48M had been paid as at the reporting date and Ksh67M 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
Mortgage 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

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 Mortgage 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:

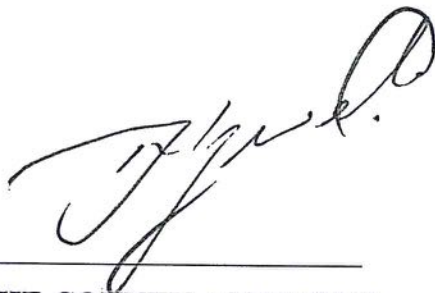
- (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
- (ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity;
- (iii) Designing, implementing 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 Mortgage 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 Mortgage 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
Mortgage 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 MORTGAGE 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 Mortgage 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 and 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 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

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

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.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my adverse opinion.

Basis for Adverse Opinion

1. Accuracy of the Financial Statement

1.1 Cash and Cash Equivalents

The statement of financial position reflects a cash and cash equivalents' balance of Kshs.281,997,507 as disclosed under note 6 to the financial statements as at 30 June 2016, (2015 Kshs.73,004,000). This differs with the reconciled bank balance by Kshs.6,739,790. Information available indicates that the differences is a result of two receipts in the cash book not recorded in the bank statements namely; interest receivable from the previous fund manager and unremitted member deductions of Kshs.1,872,199 and Kshs.4,864,591 respectively. The amounts, which were unbanked as at 30 June 2016 were also excluded from the cash and cash equivalents' balance.

In the circumstances, the accuracy of the cash and cash equivalents as reported could not be confirmed.

1.2 Inaccurate Debtors' Balance

The statement of financial position indicates a debtors' balance of Kshs.67,290,000 as disclosed under note 2 to the financial statements as at 30 June 2016, (2015 Kshs.107,355,000). Information available indicates that this figure is net of all the payroll deductions during the year totaling Kshs.56,080,419. However, only Kshs.46,044,348 had been remitted into the fund bank account as of 30 June 2016. An unremitted balance Kshs.10,036,071 due from the County Assembly has not been incorporated in the fund financial statements as debtors. Further an amount receivable from the initial fund manager received in July of the subsequent financial year of Kshs.3,987,178 has not been recognized as a debtor as at 30 June 2016. In the circumstances, the accuracy and completeness of debtors could not be confirmed. Further, in reporting the mortgage loan debtor's balance, the entire amount has been presented as current assets despite some amounts falling due after twelve (12) months.

In the circumstances, I am unable to confirm the accuracy of the debtors balance and its presentation in the financial statements.

1.3 Inaccurate Revenue Figure

International Public Sector Accounting Standards (IPSAS) accrual basis requires that income is recognized when the earning process is substantially complete and not merely when paid. The statement of revenue and expenditure indicates an income of Kshs.707,000 under interest accrued in the fund and as disclosed under note 3 to the financial statements. This amount excludes interest earned on the Fund balance from

the initial fund manager during the year under review of Kshs.3,363,445. In the circumstances, I am unable to confirm the accuracy and completeness of income as reported.

2. Non-Compliance with the Fund Regulations

As noted in the previous year, the mortgage scheme had disbursed loans to 118 MCAs with an outstanding balance of Kshs.65,484,624 as of 30 June 2016. However, the following irregularities were observed in the operations of the scheme which are contrary to the provisions of Sec 16(2) and Sec 15(1) of the Nairobi City County Assembly (NCCA) Mortgage Scheme Regulations, 2014:-

- (i) The loans disbursed were not supported with valuation reports for the properties being financed, and
- (ii) Title deeds in joint registration names between MCAs (borrower) and the County Assembly Mortgage Scheme Fund were not availed for audit review.

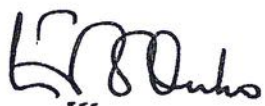
In the circumstances, it is neither possible to confirm whether the loans were disbursed for the intended purpose nor ascertain the means by which the loans would be recovered in the event of default.

3. Doubtful Loans

The Nairobi City County Assembly Service Board Mortgage Scheme Fund regulations 2014 Section 13(1) pegs recovery of mortgage loans advanced to the MCAs to their term in the assembly. Included in the debtors' balance of Kshs.67,290,022 and as disclosed under note 2 to the financial statements is a loan amount advanced to twelve (12) MCAs amounting to Kshs.10,963,776 whose recovery period stretches beyond the term of the current assembly. Consequently, the full recovery of the loans from the twelve members is doubtful. In the circumstances, I am unable to confirm the fair statement of debtors as reported.

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 Mortgage 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).



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

Nairobi

03 March 2017

NAIROBI CITY COUNTY ASSEMBLY

Mortgage Scheme Fund

Financial Statements

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

REPORT OF THE INDEPENDENT AUDITORS

NAIROBI CITY COUNTY ASSEMBLY
Mortgage 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 Paid by Members	4	2,227	1,710
Interest Accrued in the fund	3	707	361
Total Receipts		2,934	2,071
<u>Expenditure</u>			
Administrative Fees Paid		-	1,710
Bank Charges		5	2
Total Expenditure		5	1,712
Surplus/ (Deficit)		2,928	359
Surplus/ (Deficit) B/F		359	
Surplus/ (Deficit) C/F		3,287	359



CLERK TO THE COUNTY ASSEMBLY
(FUND ADMINISTRATOR)

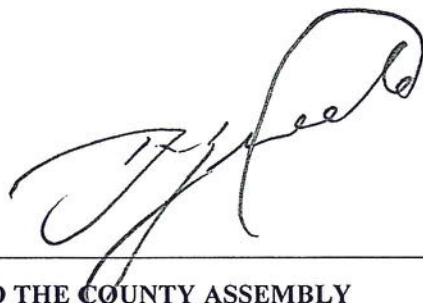


PRINCIPAL ACCOUNTANT

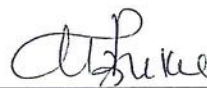
NAIROBI CITY COUNTY ASSEMBLY
Mortgage Scheme Fund
Financial Statements
For the year ended June 30, 2016 (Kshs'000)

STATEMENT OF FINANCIAL POSITION
AS AT 30TH JUNE 2016

		2016	2015
	Notes	Ksh.'000'	Ksh.'000'
<u>Non-Current Assets</u>	1		
<u>Current Assets</u>			
Cash and Cash Equivalents	6	281,997	73,004
Debtors	2	67,290	107,355
NCCA Development Account		-	50,000
Total Assets		<u>349,287</u>	<u>230,359</u>
<u>Financed By</u>			
Mortgage Loan Fund Account		346,000	230,000
Income and Expenditure Account (Accumulated Surplus/ (Deficit)		<u>3,287</u>	<u>359</u>
Net Value of the Fund		<u>349,287</u>	<u>230,359</u>



CLERK TO THE COUNTY ASSEMBLY
(FUND ADMINISTRATOR)



PRINCIPAL ACCOUNTANT

NAIROBI CITY COUNTY ASSEMBLY
Mortgage 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	2,227	1,710
Interest paid into the fund		-	-
Total cash received from Operating Activities 'a'		<u>2,227</u>	<u>1,710</u>
Cash Payments			
Administrative Fees Paid		-	1,710
Bank Charges paid		<u>5</u>	<u>2</u>
Total Payments 'b'		<u>5</u>	<u>1,712</u>
Net Cash from Operating Activities 'a' - 'b' = 'c'		<u>2,222</u>	<u>(2)</u>
<u>Cash Flows from Investing Activities</u>			
Loans Paid by Members		54,270	25,451
Loans advanced to Members		<u>13,500</u>	<u>132,446</u>
Net Cash flows from Investing Activities 'd'		<u>40,770</u>	<u>(106,995)</u>
<u>Cash Flows from Financing Activities</u>			
Cash Receipts from County Treasury	5	<u>166,000</u>	<u>180,000</u>
Net Cash flows from Financing Activities 'e'		<u>166,000</u>	<u>180,000</u>
Cash at the beginning of the period 'f'		<u>73,004</u>	<u>-</u>
Cash at the end of the period (c + d + e + f)	6	<u>281,996</u>	<u>73,004</u>

CLERK TO THE COUNTY ASSEMBLY

PRINCIPAL ACCOUNTANT

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

NAIROBI CITY COUNTY ASSEMBLY
MORTGAGE LOAN SCHEME FUND

Statement of changes in equity for the year ended 30th June 2016

	Mortgage Loan Fund Account KSH (000')	Accumulated Surplus/Deficit KSH (000')	Total KSH (000')
Balance b/f 1st July 2015	<u>230,000</u>	<u>359</u>	<u>230,359</u>
Transfers into the fund	116,000		116,000
Surplus for the year	<u>-</u>	<u>2,928</u>	<u>2,928</u>
Balance as at 30 June 2016	<u>346,000</u>	<u>3,287</u>	<u>349,287</u>

NAIROBI CITY COUNTY ASSEMBLY
Mortgage 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.360,973 has since been paid and is no longer owing.

NOTES TO FINANCIAL STATEMENTS

1. Non-Current Asset

Non-Current Asset. The Fund by its nature cannot maintain fixed assets unless to facilitate its day-to-day operations and therefore did not have any as at the reporting date.

2. Analysis of Debtors

Category	Amount Ksh.
a. Loan Debtors	66,224,079
b. Interest Income due from Administrator bank	359,173
c. Interest Income due from Cooperative Bank	<u>706,770</u>
Total	<u>67,290,022</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 debtors' 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. Fund Amount

The amount of Ksh.166,000,000 includes an amount of Ksh.50,000,000 paid by the County Treasury in the year 2014/2015 but could not be transferred to the Mortgage account due to breach of contractual obligations by the then administrator bank

6. Cash and Cash equivalents

Cash and cash equivalents represent cashbook balance.

