

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

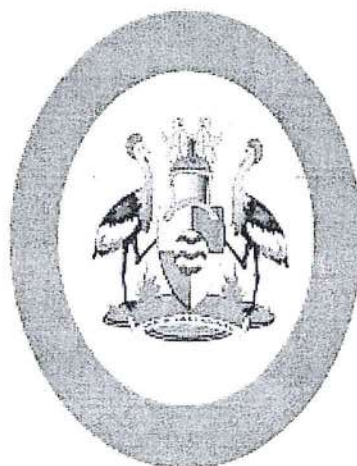
ON

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

**FOR THE YEAR ENDED
30 JUNE 2017**

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NAIROBI CITY COUNTY



COUNTY ASSEMBLY SERVICE BOARD

MORTGAGE SCHEME FUND

FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2017**

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, 2017 (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 2017 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
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(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

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
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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 and further Ksh.50M and Ksh.116M in 2014/15 and 2015/16 financial years respectively. Since then 133 beneficiaries have made borrowings amounting to Ksh.230M. Of this amount Ksh.135M has been paid and Ksh.95M was outstanding as at the reporting date.

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.

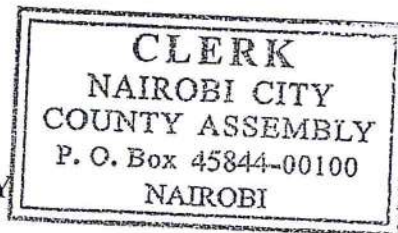
The Salaries and Remuneration Commission in its circular ref SRC/ADM/CIR/1/13 Vol.III(128) dated 17th December 2014 provided guidelines for access of Car Loan and Mortgage benefits by all state and public officers. Arising therefrom the County Assembly Service Board approved and adopted the Staff Loans Policy Paper on 17th March 2015. On 20th August 2015 the Board

NAIROBI CITY COUNTY ASSEMBLY
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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
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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 each Financial Year.

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 Fund;
- (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 as set out on pages 9-14, which have been prepared using appropriate accounting policies in accordance with International Public Sector Accounting Standards on accrual basis (IPSAS Accrual). 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, 2017, 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

NAIROBI CITY COUNTY ASSEMBLY
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preparation of the Fund's Financial Statements as well as the adequacy of the systems of internal financial control.

Approval of the financial statements

The Fund's financial statements were approved and signed by the Accounting Officer on 28th September 2017.



CLERK TO THE COUNTY ASSEMBLY
(FUND ADMINISTRATOR)



PRINCIPAL ACCOUNTANT

REPUBLIC OF KENYA

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NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON NAIROBI CITY COUNTY ASSEMBLY SERVICE BOARD MORTGAGE SCHEME FUND FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

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 2017, and the statement of income and expenditure, statement of changes in equity 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 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matter described in the basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Nairobi City County Assembly Service Board Mortgage Scheme Fund as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Finance Management Act, 2012.

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

Basis for Qualified Opinion

Sitting Allowance

The statement of income and expenditure reflects administrative expenses totalling Kshs.1,373,000 for the year ended 30 June 2017. Included in the expenditure is an amount of Kshs.367,900 being sitting allowance paid to loans committee members vide payment voucher numbers 913 and 868. However, a review of minutes of the committee revealed that the meetings for which the sitting allowance of Kshs.367,900 was claimed and paid confirmed only the minutes of the previous meetings and no other issues were deliberated upon. Consequently, the validity of the expenditure amounting to Kshs.367,900 cannot be confirmed.

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 2017

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Nairobi City County Assembly Service Board Mortgage Scheme Fund 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. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, were of most significance to the audit of the financial statements for the current year. Except for the matter described in the Basis for Qualified Opinion section, I have determined that there are no key audit matters to communicate in my report.

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 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.

In preparing the financial statements, management is responsible for assessing the County Assembly Service Board Mortgage Scheme Fund'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 liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

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

Those charged with governance are responsible for overseeing the Mortgage Scheme Fund's financial reporting process.

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

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could

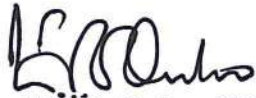
reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

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

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



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

Nairobi

19 February 2018

NAIROBI CITY COUNTY ASSEMBLY
Mortgage Scheme Fund
Financial Statements
For the year ended June 30, 2017 (Kshs'000)

STATEMENT OF INCOME AND EXPENDITURE
FOR THE YEAR ENDED 30TH JUNE 2017

	Notes	2017 Ksh. '000'	2016 Ksh. '000'
<u>Income</u>			
Loan Interest from Borrowers	2	2,186	2,227
Interest Accrued in the fund	3	10,665	707
Total Receipts "a"		12,851	2,934
<u>Expenditure</u>			
Administrative Expenses Paid		1,373	-
Bank Charges		19	5
Total Expenditure "b"		1,392	5
Surplus/ (Deficit) ("a" - "b" = "c")		11,459	2,928
Surplus/ (Deficit) B/F		3,287	359
Surplus/ (Deficit) C/F		14,746	3,287



CLERK TO THE COUNTY ASSEMBLY
(FUND ADMINISTRATOR)



PRINCIPAL ACCOUNTANT

NAIROBI CITY COUNTY ASSEMBLY
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STATEMENT OF FINANCIAL POSITION
AS AT 30TH JUNE 2017

	Notes	2017 Ksh.'000'	2016 Ksh.'000'
<u>Non-Current Assets</u>			
Long term Debtors	1	92,782	-
<u>Current Assets</u>			
Cash and Cash Equivalents	4	265,612	281,997
Short term Debtors	1	2,352	67,290
Total Assets		360,746	349,287
<u>Financed By</u>			
Mortgage Loan Fund Account		346,000	346,000
Income and Expenditure Account (Accumulated Surplus/ (Deficit)		14,746	3,287
Net Value of the Fund		360,746	349,287

CLERK TO THE COUNTY ASSEMBLY
(FUND ADMINISTRATOR)

PRINCIPAL ACCOUNTANT

NAIROBI CITY COUNTY ASSEMBLY
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CASH FLOW STATEMENT

FOR THE YEAR ENDED 30TH JUNE 2017

	Notes	2017 Ksh.'000'	2016 Ksh.'000'
<u>Cash Flows from Operating Activities</u>			
Cash Receipts			
Loan Interest Paid by Members	2	2,186	2,227
Interest paid into the fund		<u>11,024</u>	<u>-</u>
Total cash received from Operating Activities 'a'		<u>13,210</u>	<u>2,227</u>
Cash Payments			
Administrative Fees Paid		1,373	-
Bank Charges paid		<u>19</u>	<u>5</u>
Total Payments 'b'		<u>1,392</u>	<u>5</u>
Net Cash from Operating Activities 'a' - 'b' = 'c'		<u>11,818</u>	<u>2,222</u>
<u>Cash Flows from Investing Activities</u>			
Loans Paid by Members		55,894	54,270
Loans advanced to Members		<u>(84,096)</u>	<u>(13,500)</u>
Net Cash flows from Investing Activities 'd'		<u>(28,201)</u>	<u>40,770</u>
<u>Cash Flows from Financing Activities</u>			
Cash Receipts from County Treasury		<u>-</u>	<u>166,000</u>
Net Cash flows from Financing Activities 'e'		<u>-</u>	<u>166,000</u>
Cash at the beginning of the period 'f'		<u>281,996</u>	<u>73,004</u>
Cash at the end of the period (c + d + e + f)	4	<u>265,612</u>	<u>281,996</u>


CLERK TO THE COUNTY ASSEMBLY
(FUND ADMINISTRATOR)


PRINCIPAL ACCOUNTANT

NAIROBI CITY COUNTY ASSEMBLY
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STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30TH JUNE 2017

	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>
 Balance b/f 1st July 2016	 <u>346,000</u>	 <u>3,287</u>	 <u>349,287</u>
Transfers into the fund	-		-
Surplus for the year	<u>-</u>	<u>11,459</u>	<u>11,459</u>
Balance as at 30 June 2017	<u>346,000</u>	<u>14,746</u>	<u>360,746</u>

NAIROBI CITY COUNTY ASSEMBLY
Mortgage Scheme Fund
Financial Statements
For the year ended June 30, 2017 (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 are 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. No new transfers were received during the period under reporting.

NAIROBI CITY COUNTY ASSEMBLY
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NOTES TO FINANCIAL STATEMENTS

1. Analysis of Debtors.

Category	Amount Ksh.
a. Short Term Loan Debtors	2,352,322
b. Long term Loan Debtors	<u>92,781,799</u>
Total	<u>95,134,121</u>

2. 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.

3. Analysis of Interest Accrued in the Fund

Category	Amount Ksh.
a. Interest income paid by Cooperative Bank	7,302,009
b. Interest income paid Family Bank	<u>3,363,450</u>
Total	<u>10,665,459</u>

4. Cash and Cash equivalents

Cash and cash equivalents represent cashbook balance.

