

NAIROBI CITY COUNTY



NAIROBI CITY COUNTY ASSEMBLY

SECOND ASSEMBLY – FOURTH SESSION

THE REPORT OF THE SELECT COMMITTEE ON PUBLIC ACCOUNTS

ON

THE CONSIDERATION OF THE REPORT OF THE AUDITOR-GENERAL ON THE
FINANCIAL STATEMENTS OF NAIROBI CITY COUNTY EXECUTIVE FOR THE
YEAR ENDED 30TH JUNE, 2018

*Paper laid by
Hon. W. W. W. W.
Chair PAC
on 11th Nov. 2021
11/11/2021*

Clerks Chambers
Nairobi City County Assembly
City Hall Buildings
NAIROBI

OCTOBER 2021

TABLE OF CONTENTS

ABBREVIATIONS	3
CHAIRPERSONS FOREWORD	4
1.0. INTRODUCTION.....	7
1.1. Mandate of the Public Accounts Committee.....	7
1.2. Guiding principles.....	7
1.3. Obligations of the Accounting Officer	8
1.4. Committee Membership.....	8
1.5. Committee Secretariat	9
2.0. KEY ISSUES AND RECOMMENDATIONS	10
3.0. WITNESSES AND SITTINGS	13
4.0. FINANCIAL STATEMENTS OF THE NAIROBI CITY COUNTY EXECUTIVE FOR THE YEAR ENDING 30TH JUNE, 2019	17
4.1. Cash and Cash Equivalents.....	17
4.2. Revenue.....	21
4.3. Expenditure	36
4.4. Acquisition of Assets	40
4.5. Unsupported Payment Vouchers.....	41
4.6. Missing Payment Vouchers.....	42
4.7. Other Grants and Transfers.....	43
4.8. Accounts Receivables.....	44
4.9. Pending Accounts Payables	46
4.10. Non-Current Assets and Assets Register	48
4.11. Budget Performance	49
4.12. Compensation of Employees.....	52
4.13. Procurement of Goods, Services and Works.....	55
4.14. Beautification of Nairobi.....	70
4.15. Irregular Collection of Garbage in Non-Contracted Zones/Areas	72
4.16. Stalled Projects	73
4.17. Health Facilities.....	75
4.18. Confidential Expenditure.....	83
CONCLUSION	84
SUMMARY OF ALL RECOMMENDATIONS	85
ANNEXURES.....	98

ABBREVIATIONS

CEC - County Executive Committee

CEO - Chief Executive Officer

CPSB - County Public Service Board.

DCI - Director of Criminal Investigations

DPP - Director of Public Prosecution

EACC - Ethics and Anti- Corruption Commission

FY – Financial Year

IFMIS - Integrated Financial Management Information System

KCB - Kenya Commercial Bank

KEMSA – Kenya Medical Supplies Agency

KENAO – Kenya National Audit Office

MCA - Member of County Assembly

NCC - Nairobi City Council

NLC - National Land Commission

PAC – Public Accounts Committee

PFM – Public Finance Management

PSM - Public Service Management

CHAIRPERSON'S FOREWORD

Honourable Speaker, on behalf of the Select Committee on Public Accounts and pursuant to the provisions of Standing Order 191(6), it is my pleasant privilege and honour to present to this Assembly this report of the Public Accounts Committee on the consideration of the ***“The report of the Auditor General on the financial Statements of Nairobi City County Executive for the year ended 30th June, 2018”***.

Honourable Speaker, the County Assembly is responsible for holding accounting officers of the County Government entities accountable in the spending of public funds. Specifically Article 229 of the Constitution requires the Auditor General to submit annual audit reports to the County Assembly in order for the Assembly to take appropriate action. Once the report is submitted and tabled, it is committed to the PAC for consideration and reporting. This Committee report is therefore a culmination of a rigorous and a long exercise carried out by the Committee in its scrutiny of the report of the Auditor General and the various responses by the Accounting Officers. In conducting this exercise, the Committee held **fifty one (51) sittings** and a retreat during which it received both written and oral evidence from Accounting Officers and other witnesses on audit queries raised by the Auditor-General. Minutes of the Committee's meetings are annexed to this report. In its scrutiny, the Committee was concerned in determining whether, in the year under review, Accounting Officers upheld key principles of public finance management namely; value for money, efficiency, and effectiveness in public spending.

Due to the leadership challenges that the Assembly faced and the outbreak of Covid-19 pandemic, the Committee could not prepare its report within the statutory timelines provided for in the Constitution. I want to thank the Hon. Speaker and the House for allowing us more time to dispense the matter.

Honourable Speaker, the Committee upon careful examination of the evidence brought before it identified various issues raised by the Auditor General during the period under review that hamper service delivery. The issues include; an incompetent county treasury, accounting for expenditures, delayed procurement processes, engaging of incompetent service providers, corruption, poor project planning and implementation. To this end, as has become the Committee's norm, the Committee has taken a pragmatic step of holding to account individual officers for their various acts of omission and/or commission that occasioned loss of public funds. In some cases, the

Committee has invoked the provisions of Article 226(5) of the Constitution and recommended that the concerned officers make good the losses that have arisen under their watch, upon conclusive investigations by the relevant investigative agencies.


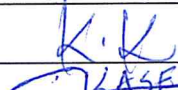
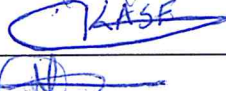

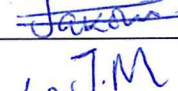
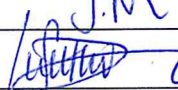
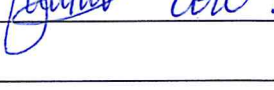

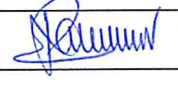
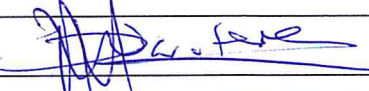
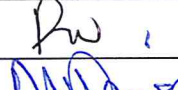

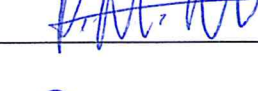
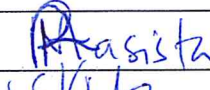
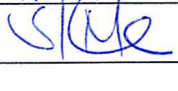
In conclusion, **Honourable Speaker**, I would like to thank all the Accounting Officers and witnesses who appeared before the Committee and provided responses, which provided valuable insights into the issues raised by the Auditor General. I wish also to appreciate my fellow Honourable Members of the Committee, the Offices of the Speaker and the Clerk of the County Assembly, and the Office of the Auditor General for their steadfast support. Special appreciation also goes to the members of the Committee secretariat who have had to go beyond the normal call of duty on numerous occasions.

Honourable Speaker, on behalf of the Public Accounts Committee, I now wish to table the report and urge the Assembly to adopt it and the recommendations therein.



.....
Hon. Wilfred Oluoch Odalo, MCA
Chairperson

We Members of the Public Accounts Committee (PAC) do hereby affix our signatures to this report to affirm the correctness of the contents and support for the report: -

No.	NAME	SIGNATURE
1.	Hon. Wilfred Odalo, MCA - Chairperson	
2.	Hon. Peter Wahinya Njau MCA – V/Chairperson	
3.	Hon. Anthony Karanja Kiragu, MCA	
4.	Hon. Jairus Omayo, MCA	
5.	Hon. Moses Ogeto, MCA	
6.	Hon. Maurice Ochieng, MCA	
7.	Hon. Jane Muasya, MCA	
8.	Hon. Silas Ongwae Matara, MCA	
9.	Hon. John Kamau Muthiga, MCA	
10.	Hon. Doris Kanario, MCA	
11.	Hon. Jared Okode, MCA	
12.	Hon. Mark Ndung'u, MCA	
13.	Hon. Osman Khalif, MCA	
14.	Hon. Anthony Ng'ang'a Gatune, MCA	
15.	Hon. Peter Imwatok, MCA	
16.	Hon. Lawrence Otieno, MCA	
17.	Hon. Benson Macharia Mwangi, MCA	
18.	Hon. Peter Muriithi Warutere, MCA	
19.	Hon. Rose Ogonda, MCA	
20.	Hon. Peter Wanyoike Gitau, MCA	
21.	Hon. Abraham Mwangi Njihia, MCA	
22.	Hon. Pius Mwaura Mbono, MCA	
23.	Hon. Anne Catherine, MCA	
24.	Hon. Rosemary Masista, MCA	
25.	Hon. Sylvia Museiya, MCA	

1.0. INTRODUCTION

1.1. Mandate of the Public Accounts Committee

The Public Accounts Committee derives its mandate from Standing Order 197 (2) of the Nairobi City County Assembly, which provides that: -

“The Public Accounts Committee shall be responsible for the examination of the accounts showing the appropriations of the sum voted by the County Assembly to meet the public expenditure and of such other accounts laid before the County Assembly as the Committee may think fit”.

The primary mandate of the Committee is therefore to oversight the expenditure of public funds by Nairobi City County entities, to ensure value for money and adherence to government financial regulations and procedures. The Committee further aims at ensuring that Nairobi City County public funds are prudently and efficiently utilized. The Committee executes its mandate based on annual and special audit reports prepared by the Kenya National Audit Office (KENAO).

Article 229 (8) of the Constitution provides that within three months after receiving the report of the Auditor General, Parliament or the **County Assembly** shall debate and consider the report and take appropriate action. It is on this basis that this report has been produced by the Committee for consideration and adoption by the County Assembly.

1.2. Guiding principles

In the execution of its mandate, the Committee is guided by core constitutional and statutory principles on public finance management, as well as established customs, traditions, practices and usages. These principles include the following: -

(a) Constitutional Principles on Public Finance

Article 201 of the Constitution enacts fundamental principles aimed at guiding all aspects of public finance in the Republic. It states that the principles are, *inter alia*, *openness and accountability, including public participation in financial matters; public money shall be used in a prudent and responsible way; and financial management shall be responsible, and fiscal reporting shall be clear*. The Committee places high regard on these principles, among others, and has been guided by them in the entire process that has led to this report.

(b) Direct Personal Liability

Article 226(5) of the Constitution is unequivocal that: - *“If the holder of a public office, including a political office, directs or approves the use of public funds contrary to law or instructions, the person is liable for any loss arising from that use and shall make good the loss, whether the person remains the holder of the office or not”*. Consequently, Section 203(1) of the PFM Act, 2012 enacts that: - *“A public Officer is personally liable for any loss sustained by a county government that is attributable to-*

(a) the fraudulent or corrupt conduct, or negligence, of the officer; or

(b) the officer’s having done any act prohibited by sections 196, 197 and 198”

The Committee considers this Constitutional and legal provisions as the basis for holding Accounting Officers and other Public Officers directly and personally liable for any loss of public funds that may occur under their watch.

1.3. Obligations of the Accounting Officer

Article 226(2) of the Constitution provides, inter alia, that: *“the Accounting Officer of a national public entity is accountable to the National Assembly for its financial management, and the Accounting Officer of a county public entity is accountable to the County Assembly for its financial management”*. Subsequently, Section 149(1) of the Public Finance Management (PFM) Act, 2012 provides that: *“An accounting officer is accountable to the County Assembly for ensuring that the resources of the entity for which the officer is designated are used in a way that is—*

(a) lawful and authorized; and

(b) Effective, efficient, economical and transparent.”

These provisions obligate all the Accounting Officers to appear before the PAC to respond to audit queries raised by the Auditor General.

1.4. Committee Membership

The Committee comprises of the following members: -

- 1. Hon. Wilfred Odalo, MCA - Chairperson**
- 2. Hon. Peter Wahinya Njau MCA - Vice Chairperson**
3. Hon. Anthony Karanja Kiragu, MCA
4. Hon. Jairus Omayo, MCA
5. Hon. Moses Ogeto, MCA
6. Hon. Maurice Ochieng, MCA
7. Hon. Jane Muasya, MCA

8. Hon. Silas Ongwae Matara, MCA
9. Hon. John Kamau Muthiga, MCA
10. Hon. Doris Kanario, MCA
11. Hon. Jared Okode, MCA
12. Hon. Mark Ndung'u, MCA
13. Hon. Osman Khalif, MCA
14. Hon. Anthony Ng'ang'a Gatune, MCA
15. Hon. Peter Imwatok, MCA
16. Hon. Lawrence Otieno, MCA
17. Hon. Benson Macharia Mwangi, MCA
18. Hon. Peter Muriithi Warutere, MCA
19. Hon. Rose Ogonda, MCA
20. Hon. Peter Wanyoike Gitau, MCA
21. Hon. Abraham Mwangi Njihia, MCA
22. Hon. Pius Mwaura Mbono, MCA
23. Hon. Anne Catherine, MCA
24. Hon. Rosemary Masista, MCA
25. Hon. Sylvia Museiya, MCA

1.5. Committee Secretariat

1. Shadrack Makokha – Principal Clerk Assistant
2. Josphine Kamau - Senior Clerk Assistant
3. Benedict Ochieng – Second Clerk Assistant
4. Faith Wairimu – Office Assistant

2.0. KEY ISSUES AND RECOMMENDATIONS

The Committee has identified issues it considered grave and subsequently made recommendations that require urgent attention. The issues include-

i) The County Treasury

Section 103 of the PFM Act, 2012 establishes the County Treasury comprising of CEC Member for Finance, the Chief Officer for Finance and Departments responsible for financial and fiscal matters. The CEC Member for Finance is the head of the County Treasury. Amongst other duties, the County Treasury has a responsibility of ensuring proper management and control of, and accounting for the finances of the county government and its entities in order to promote efficient and effective use of the county's budgetary resource. However, during the period under review, the Auditor General portrayed a weak and an incompetent County Treasury which could not undertake this cardinal duty. The Auditor General reported cases where the Treasury Officials committed glaring and simple errors such as paying to wrong accounts, making incorrect entries, executing payments outside established systems such as the Integrated Financial Management Systems, failure to prepare and keep accounting documents. In addition, the regime kept changing the office holders in the County Treasury making it even impossible to determine who would be held to account. **To this end, the Committee has recommended that the CEC Member for Finance should take personal interest in the management and running of the County Treasury and ensure that officers working at the treasury are fully capacitated to enable them perform optimally.**

ii) Accounting for Expenditures and dealing with the Auditor General

Pursuant to Section 149 of the PFM Act, 2012, it is the responsibility of each Accounting Officer to account for the finances and resources under his/her custody. The accountability include preparing and keeping accounting records/documents such as payment vouchers, IFMIS reports and Financial Statements. In addition, Section 149 (2) (k) of the said act require each Accounting Officer to not later than three months after the end of each financial year, prepare annual financial statements for that financial year and submit them to the Auditor-General for audit, with a copy to the County Treasury. In the year under review, Accounting Officers failed to submit the financial statements and records during the statutory period but later on emerged with the records when the Committee was interrogating the final Audit report. This can only be construed to mean that the officers were trying to either evade being audited or conceal misappropriation of funds. **To this end, the Committee has recommended that all Accounting Officers should institute measures to ensure that the County Treasury always acts in time when dealing with the**

Auditor General to forestall audit queries and failure to which they be sanction for breach of Section 149 (2) (k) of the PFM Act, 2012.

iii) Management of County Assets

It is a requirement under Section 149 of the PFM Act, 2012 for Accounting Officers to prepare an asset register as part of the accountability mechanism. However, for a long time, the County Government has lacked a comprehensive fixed asset register thus putting the County's assets especially land in a vulnerable position as they became increasingly susceptible to theft through fraud. The process of updating/preparing a digital asset register has taken far too long and one can conclude that it is a deliberate scheme not to document county assets. Accordingly, the Committee has recommended that the **CEC Member for Finance and Economic Planning takes a personal interest into this matter and ensure that the County Government prepares a comprehensive digitized fixed assets register and table a report on the same in the County Assembly within three (3) months of adoption of this report.**

iv) Project Implementation

As reported in the previous Committee report, the Auditor General still painted a disjointed project implementation framework for the county leading to abandoning of sites by contractors or delayed implementation thus taxpayers not receiving value for money. Reasons advanced for these occurrences include delayed/prolonged procurement process, delayed payments and generally incapable contractors. To this end the Committee has again recommended that before engaging a service provider especially contractors for capital projects, **the County Executive must at all times undertake due diligence and determine whether the service provider has the requisite financial capacity, technical expertise and demonstrated experience to perform the work.** In addition, the companies which underperform **should be blacklisted** and never awarded works. Similarly, the CEC Member for Finance and Economic Planning should **establish project management teams in Sectors whose mandate should include conceptualization of viable projects with definite completion timelines and adhere to the tenets of project management.**

v) Outstanding KCB Bank Loan

The outstanding Kenya Commercial Bank (KCB) loan which was initially taken from Equity bank but later transferred to KCB bank has been a thorny issue that continue to adversely impact on the finances of the County. By the end of the FY 2016/17, the bank loan stood at Kshs.4, 081,270,388. This amount has kept on increasing as the interest accrued. During the period under

review, the KCB bank account was overdrawn by Kshs. 3,794,555 on 30 June 2018. Accordingly, the matter of the KCB bank loan require urgent policy intervention to avoid further loss of public funds through outrageous bank interests. The Committee has therefore recommended that ***the CEC Member for Finance and Economic Planning should take personal interest in this matter of KCB bank loan and within three months of adoption of this report table a comprehensive paper before the County Assembly on how the loan shall be cleared to forestall further loss of public funds.***

vi) Further investigations, surcharging and prosecutions

There are a number of issues that the Committee has invited state investigative agencies such as the Ethics and Anti-Corruption Commission (EACC), Director of Criminal Investigations (DCI) and the Director of Public Prosecutions (DPP) to conduct further investigations and/or prosecution of those found culpable. This is because there was either failure by the Accounting Officers to provide the requested documentation for their own reasons or glaring evidence of misappropriation of funds. The areas include:-

- (a) Procurement of medical insurance*
- (b) Collection of garbage in non-contracted zones*
- (c) Acquisition of assets*
- (d) Confidential expenditure of amounting to Kshs 14,405,900*

3.0. WITNESSES AND SITTINGS

The **Member for Finance and Economic Planning and Accounting Officers** for various County Executive Departments and other mentioned witnesses appeared before the Committee on various dates to adduce evidence on the audited Financial Statements of the Nairobi City County Executive for the year ending 30th June 2018. The witnesses appeared as follows: -

DATE	WITNESS(ES)/ INVITEES	ISSUES
18/06/2019	<ul style="list-style-type: none">– CEC Finance– Chief Officer, Finance– Chief Officer, Trade– Liquor Licensing Board Members	<ol style="list-style-type: none">1. Cash and Cash equivalents<ol style="list-style-type: none">1.1. Unaccounted for cash withdrawals- Kshs 209, 385, 7521.2. Irregular payment of suppliers through cash – Kshs 381, 841, 2241.3. Over drawn accounts – Kshs 3,794, 5551.4. Un disclosed bank accounts balances – Kshs 3,045, 914, 5962. Revenue<ol style="list-style-type: none">2.1. Irregular withdrawals from revenue account – 6,022, 896, 1232.2. Unexplained cash receipts – Kshs 5,353,171,1752.3. KRB Road Maintenance Levy Refunds2.4. County own generated receipts2.5. Cancelled receipts2.6. Stale cheques2.7. Property rates adjustment2.8. Unsupported revenues to revenue account- 9,012, 7462.9. Irregular payment to M/S Webtribe Ltd- Kshs 152,055,3132.10. Nairobi Liquor Licensing Board

19/06/2019	<ul style="list-style-type: none"> – CEC Finance – Chief Officer, Finance – County Secretary 	<ul style="list-style-type: none"> 3. Confidential expenditure 4. Expenditure <ul style="list-style-type: none"> 4.1. Discrepancy between Ledgers and Financial Statements 4.2. Repayment of Principal and Domestic Lending and on-lending 4.3. Other payments 4.4. Acquisition of assets <ul style="list-style-type: none"> 4.4.1. Unsupported expenditure 4.4.2. Payments not captured in IFMIS 4.5. Unsupported payment vouchers 4.6. Missing payment vouchers 4.7. Other grants and transfers 5. Accounts receivables <ul style="list-style-type: none"> 5.1. Accounts Receivables (Debtors) 5.2. Outstanding imprest 6. Pending accounts payable 7. Non- Current Assets and Asset register
20/06/2019	<ul style="list-style-type: none"> – Chief Officer, Finance – Chief Officer, Environment – Chief Officer, Water, Forestry and Sanitation – Head of procurement. 	<ul style="list-style-type: none"> 1. Beautification of Nairobi 2. Irregular collection of garbage in non-contracted zones/areas 3. Supply, delivery, installation testing and commissioning of 50 ton electronic weighbridge and standby generator
24/06/2019	<ul style="list-style-type: none"> – Chief Officer, Finance – Chief Officer, PSM – County Secretary – CEO, AAR Insurance – Chief Officer, Finance at the time of payment – Head of Procurement 	<ul style="list-style-type: none"> 4. Staff medical insurance cover. 5. Compensation of employees <ul style="list-style-type: none"> 5.1. Unsustainable wage bill 5.2. Increase in temporary workers' wage bill 5.3. Staff establishment

	<ul style="list-style-type: none"> at the time of procurement – CECM Finance at the time of procurement – Current CECM and Chief Officer, Finance – Current Head of Procurement – Chief Officer, PSM 	
25/06/2019	<ul style="list-style-type: none"> – Chief Officer, Finance – Chief Officer, Roads. – Chief Officer, Transport and Public Works. 	<ul style="list-style-type: none"> 6. Stalled projects 7. Procurement of goods and services <ul style="list-style-type: none"> 7.1. Construction of Maringo Market 7.2. Construction of public transport facility at Mama Lucy Hospital 7.3. Grading and gravelling of selected roads in Lower Savannah Ward 7.4. Grading, gravelling and improvement of Tasia roads 7.5. Wastage of bitumen at KI-60 COLAS 7.6. Purchase of Electrical items 7.7. Construction of Korogocho motorable bridge and access road
26/06/2019	Chief Officer, Health	<ul style="list-style-type: none"> 8. Health facilities <ul style="list-style-type: none"> 8.1. Human resource management 8.2. Budgeting and financing of health facilities <ul style="list-style-type: none"> 8.2.1. undisbursed funds 8.2.2. comparison of budget and actual amounts 8.3. Failure to supply drugs and non-pharmaceuticals to health facilities 8.4. Expired drugs 8.5. Failure to issue medical certificates to food handlers
27/06/2019	<ul style="list-style-type: none"> – Chief Officer, Finance – Head of Procurement 	<ul style="list-style-type: none"> 9. Budget performance <ul style="list-style-type: none"> 9.1. County own generated receipts 9.2. Overall under expenditure 9.3. Failure to achieve 30% allocation on Development Budget 10. Procurement of goods and services <ul style="list-style-type: none"> 10.1. Documents not provided for audit

01/07/2019	<ul style="list-style-type: none"> – Chief Officer, Health – Members of the Health Board 	11. Report on Health Board
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Due to the nature of the audit there were several adjournments leading to the witnesses to re-appear. In addition, the Committee received written submissions and documentary evidence from the witnesses.

The Committee also conducted the following site inspection visits to verify the information provided during its meetings with the witnesses:

DATE	TIME	SITE/PROJECT
23/09/2019	11.30 am	Karen Ridge Road, Langata
	12.30 pm	Ndwaru Road, Dagoretti South
24/09/2019		Electrical items store – Irregular procurement of electrical items
		Bitumen store – Wastage of Bitumen
02/10/2019	10.30 am	Lower Savannah Ward Roads
	11.30 am	Tasia roads
	12.30 pm	Access Roads of Kayole Spine Road
03/10/2019	11.00 am	Korogocho motorable bridge and access road
	11.45 pm	Mother Teresa Road
	12.30 pm	St. Martin Catholic Church, Mathare
07/10/2019	11.30 am	Maringo Market
	12.30 pm	Gaturo Road and Access to Courts Roads, Buruburu
		Jukwaa Lounge

In total, the Committee held **51 sittings** in the period of the examination during which submissions were presented before the committee on the queries raised by the auditor general. Minutes of the Committee's sittings and the submissions tabled by the Accounting Officers are annexed to this report.

4.0. FINANCIAL STATEMENTS OF THE NAIROBI CITY COUNTY EXECUTIVE FOR THE YEAR ENDING 30TH JUNE, 2019

4.1. Cash and Cash Equivalents

The statement of assets and liabilities as at 30 June 2018 reflects cash and cash equivalents balance of Kshs. 1,848,976,871. However, the following anomalies have been noted:

4.1.1. Unaccounted for Cash Withdrawals - Kshs. 209,385,752

Examination of the bank statements relating to Supreme Business and Current Accounts at Equity Bank revealed that the County Executive withdrew cash totaling Kshs. 206,385,752 for unspecified payments which were not supported by appropriated authority, documentation and pre-numbered payment vouchers contrary to regulation 104(I) of Public Finance Management (County Governments), Regulations 2015. Further, various withdrawals totaling Kshs. 3,000,000 from Nairobi City County Trust Account at KCB Bank, Account No. 1149229667, during the month of July 2018 in respect of an officer has not been explained or supported with documents.

The CEC Member for Finance Submitted:-

- i) The county government operated an imprest system managed by the County payment cashier who withdrew cash, made payments and accounted for funds given before being reimbursed.
- ii) It is unfortunate that the County Treasury delayed in providing documentation and payment vouchers in support of the said expenditure. This was occasioned by suspension of Treasury officers responsible for coordinating issuance of requested documents and the fact that some of the documents had been forwarded for scrutiny to investigative agencies.
- iii) Approved, serialized supporting documentation for imprests issued to County payment Cashier have been submitted for audit verification.
- iv) The Kshs. 3,000,000.00 was withdrawn by County officer who was responsible for managing cash bail refunds for clients who had deposited their cash bail to our Nairobi City County Trust Account at KCB Bank, Account No. 1149229667 and who, after court judgment, were refunded their deposits from cash withdrawn by the said cashier. Provided are payments vouchers for requesting for refunds with supporting bail receipts, court judgment and court payment summary sheets to the auditors.

Committee Observations

- i) Failure to provide financial records to the Auditor General within the stipulated time may imply that there was possible concealing of misappropriation of funds by Accounting Officers.
- ii) The manner in which cash was handled portray lack of internal controls and could lead to possible loss of public funds and was in breach of regulation 104(I) of Public Finance Management (County Governments), Regulations 2015

Committee Recommendations

- i) Accounting Officers must at all times provide complete financial records and corresponding payment records to the Auditor General within the stipulated period of three months after close of the Financial Year as provided for in Article 229(4) of the Constitution and Section 149(2)(k) of the Public Finance Management(PFM) Act, 2012.
- ii) The CEC Member for Finance must within three months of adoption of this report put in place proper cash handling mechanisms in accordance with regulation 104(I) of Public Finance Management (County Governments), Regulations 2015.

4.1.2. Irregular Payment of Suppliers through Cash - Kshs. 381,841,224

Examination of IFMIS payment schedules revealed that various suppliers were irregularly paid through cash a total of Kshs. 381,841,224 contrary to Section 104(I) (i) of Public Finance Management Act 2012, which requires the County Treasury to ensure proper management and control of, and accounting for the finances of the county government.

The CEC Member for Finance submitted:-

- i) These supplier payments totaling Kshs 381,841,224 were made below the budget line in IFMIS awaiting the uploading of the approved supplementary budget.
- ii) IFMIS journal entries made have been provided for verification.

Committee Observations

The Committee was not convinced with the CEC Member's response and held the view that the payments were irregular as pointed out by the Auditor General. The Committee further noted that by paying suppliers through cash and not through the

established systems for whatever reasons was illegal and an avenue for possible pilferage of public funds.

Committee Recommendations

- i) The CEC Member for Finance should ensure that all suppliers are paid through properly supported and pre-numbered payment vouchers, use of Cheques, Bank transfers and not cash.
- ii) The appointing authority should take disciplinary action against the officers responsible for the irregular payments.

4.1.3. Overdrawn Accounts - Kshs. 3,794,555

The County Executive KCB Bank Current Account No. 1159076065 was overdrawn by Kshs. 3,794,555 on 30 June 2018. No documentary evidence has been produced for audit review to confirm a prior approval of the overdraft by the County Treasury or a Board of the County Government as required under Section 19 (4) of Public Finance Management Act, 2012.

Submissions by the CEC Member for Finance

- i) The overdraft of KCB Current account resulted from non-payment of KCB Loan interest in the financial year 2016/2017, which was carried forward to financial year 2017/2018. The loan was initially taken from Equity Bank but was later transferred to Kenya Commercial Bank as per the provided agreement.
- ii) The loan was initially taken on understanding that the National Government would honour its (Contribution In Lieu Of Rates) CILOR remittance to County Government, which would then be used to retire the loan. The National Government has never honoured its obligation.
- iii) The above status notwithstanding, the County is engaging the National Treasury on how best to retire the KCB loan and related interest which will cause the account not to be overdrawn. Provided are correspondences between the County Government and the National Treasury.

Committee Observations

The matter of the KCB bank loan require urgent policy intervention to avoid further loss of public funds through outrageous bank interests.

Committee Recommendations

- i) The CEC Member for Finance and Economic Planning should take personal interest in this matter of KCB bank loan and within three months of adoption

of this report table a comprehensive paper before the County Assembly on how the loan shall be cleared to forestall further loss of public funds.

- ii) That prior approval from the County Assembly should always be sought by the County Treasury before an overdraft is processed.

4.1.4. Un-disclosed Bank Account Balances - Kshs. 3,045,914,596

A review of cash and cash equivalents balance revealed that a total of Kshs. 3,045,914,596 which was held in some bank accounts as of 30th June 2018 indicated below was not included and disclosed in the financial statements:

Name of Account	Account Details	Amount Kshs
Pumwani Hospital Management Board	National Bank Ac No 01231000895400	2,644,789
Mama Lucy Hospital	KCB Account No. 1122416512 (Buru Buru)	18,898,100
KCB Loan Account No MG 1424500930	A/C 105991342.	3,024,371,706
Total		3,045,914,596

In view of the above observations, the accuracy and completeness of cash and cash equivalents balance of Kshs. 1,848,976,871 as at 30th June 2018 cannot be confirmed.

Submissions by the CEC Member for Finance

- i) The error was corrected by restating Financial Statements and resubmission done to Auditor General.
- ii) A copy of the restated financial statements for the FY 2018-2019 has been provided.

Committee Observations

Failure to provide complete financial records to the Auditor General at the time of audit may imply that there was possible concealing of misappropriation of funds by Accounting Officers

Committee Recommendations

- i) **Accounting Officers must at all times provide complete financial records to the Auditor General within the stipulated period of three months after close of the Financial Year as provided for in Article 229(4) of the Constitution and Section 149(2)(k) of the Public Finance Management(PFM) Act, 2012.**
- ii) **The County Treasury should always disclose all bank accounts in the financial statements.**

iii) The Appointing Authority must within three months of adoption of this report reprimand responsible officers for laxity and incompetence.

4.2. Revenue

4.2.1. Irregular Withdrawals from Revenue Account - Kshs. 6,022,896,123

A review of records relating to the Revenue Account maintained at the Co-operative Bank of Kenya, Account No. 01141232396600, revealed unexplained debits amounting to Kshs. 6,022,896,123 during the year under review. It is apparent, therefore, that revenue was being withdrawn from the account contrary to the provisions of Article 207(3) of the Constitution, Section 109 (2) of Public Finance Management Act, 2012 and regulation 63(4) of Public Finance Management (County Governments) Regulations, 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.

It was, therefore, not possible to confirm the completeness and accuracy of the total actual county own generated receipts of Kshs. 10,157,594,130 reflected in the statement of receipts and payments for the year ended 30 June, 2018.

The CEC Member for Finance submitted:-

- i) The reported irregular withdrawals indicated in the Audit Report of Kshs. 6,022,896,123 were daily sweeping of County Revenue from Nairobi City County Revenue (Collection) Account No. 01141232396600 at Co-operative Bank to Nairobi City County Revenue Fund Account No. 1000171863 at Central Bank of Kenya (CBK) and not cash withdrawn.
- ii) Nairobi City County still has an arrangement with Co-operative Bank to automatically sweep all daily revenue collected at our Co-operative Revenue Account to CBK Revenue Account at stroke of mid-night in compliance with Section 109 (2) of the Public Finance Management Act, 2012.
- iii) It should be noted that Nairobi City County Government is one of the first Counties to sweep all its revenue collected to CBK Revenue Fund Account and expend the same by applying for approval for withdraw from the CBK revenue account (Form A, B and C).

Committee Observations

The Committee heard evidence that this matter had since been resolved as the CEC Member for Finance had provided the explanation required and that there was no loss of public funds. The Committee noted that had the Chief Officer, Finance acted

immediately after receiving the Auditor General's management letter, this matter would not have been an audit query.

Committee Recommendations

The Chief Officer, Finance should institute measures to ensure that the County Treasury always acts in time when dealing with the Auditor General to forestall audit queries.

4.2.2. Unexplained Cash Receipts – Kshs. 5,353,171,175

Review of the bank statement for the Revenue Account Number 01141232396600 at Co-operative Bank of Kenya, revealed that receipt of Kshs. 3,012,201,436 claimed by the County Executive as having been a direct banking was not captured in the bank statement. Further, the County Executive has not provided bank statements for County Revenue Fund at the Central Bank of Kenya, supporting another amount of Kshs. 2,340,969,739 claimed to have directly deposited into the County Revenue Fund. In the circumstances, it is not possible to confirm completeness and accuracy of Kshs. 5,393,110,715.

The CEC Member for Finance submitted:-

- i) The total figure of Kshs. of Kshs 5,393,110,716 was extracted by auditors from County's LAIFOMS Direct Banking Report, which was erroneously narrated as a direct banking to Nairobi City County's Co-operative Bank Revenue Account though this was actually part of the National Treasury's Exchequer Receipts paid directly to County Revenue Fund account at CBK. The errors were inadvertently done by our LAIFOMS receipting cashiers.
- ii) It is worth noting that no revenue was lost in the process, County Cashiers have been sensitized of the errors and daily reconciliations are done now to avoid recurrence of the same.

Committee Observations

The County Treasury failed to keep proper financial accounting records and this could point to possible defrauding of public funds. Further, it points to incapacity of the officers in the County Treasury.

Committee Recommendations

- i) The CEC Member for Finance should take personal interest in the management and running of the County Treasury and ensure that officers working at the treasury are fully capacitated to enable them perform optimally.

- ii) **The County Treasury should at all times keep proper financial records and submit the same to the Auditor General when requested during the audit period.**

4.2.3. KRB Road Maintenance Levy Fund Receipts

The statement of receipts and payments reflects Transfer to Other Government Entities of Kshs. 481,080,657 for the year ended 30th June, 2018. As disclosed in Note 3 to the financial statements, the amount includes Kshs. 401,201,575 in respect of KRB Roads Maintenance Levy Fund Receipts. However, a record available indicates that an amount of Kshs. 553,745,528 and not Kshs. 401,201,575 was received in 2017/2018 financial year. Kshs. 152,543,953 has therefore, understated the receipts and as a result, the KRB Road Maintenance Levy Fund Receipts are not fairly stated.

The CEC Member for Finance submitted:-

- i) It is true that we had understated, through omission, the amount stated by auditors.
- ii) The county government has rectified the omission by restating the financial statements with understated amount of Kshs. 152,543,953.00.
- iii) The restated financial statement has been provided to Auditors.

Committee Observations

The County Treasury failed to keep proper financial accounting records and this could point to possible defrauding of public funds. Further, it points to incapacity of the officers in the County Treasury.

Committee Recommendations

- i) **The CEC Member for Finance should take personal interest in the management and running of the County Treasury and ensure that officers working at the treasury are fully capacitated to enable them perform optimally.**
- ii) **The County Treasury should at all times keep proper financial records and submit the same to the Auditor General when requested during the audit period.**

4.2.4. County Own Generated Receipts

- a) The statement of receipts and payments for the year ended 30th June, 2018 reflects an amount of Kshs. 10,157,594,130 against County Own Generated Receipts while banking records in respect of Jambo Pay reflects receipts of Kshs. 8,301,362,450, resulting in an unexplained difference of Kshs. 1,856,231,679.

The CEC Member for Finance submitted:-

- i) The difference of Kshs. 1,856,231,679.40 is revenues receipted outside Jambopay system, that is, Nairobi City County own source revenue collected from streams that had not been integrated either with Jambo-Pay system or revenue collected through Mpesa pay-bills. The amounts do not form part of the Jambo-Pay Report.
- ii) Detailed breakdown of the above amounts and reconciled figures between LAIFOMS totals and Jambo-Pay figures have been provided to auditors.

Committee Observations

- i) **The County Treasury failed to keep proper financial accounting records and this could point to possible defrauding of public funds and lack of internal controls.**
- ii) **The County Government has never developed its own internal automated revenue collection system despite various recommendations of the Assembly.**

Committee Recommendations

- i) **The County Government should put strong measures to improve on Own Generated Receipts.**
 - ii) **The CEC Member for Finance and Economic Planning should within three months of adoption of this report table before the County Assembly a comprehensive paper on the measures the County Government is taking to develop an internal automated revenue collection system.**
- b) Records also show that during the year under review, the County Executive had twenty-six M-Pesa pay bill numbers for receiving County Own Generated Receipts but these have been not disclosed in the financial statements contrary to regulation 82 (4) of Public Finance Management (County Governments) Regulations, 2015. The management also did not provide for audit review M-PESA statements and evidence of banking of the monies collected through M-pesa.

The CEC Member for Finance submitted:-

- i) To curb corruption related to cash handling by County staff, the County embraced cashless revenue collection system that included introduction of MPESA pay bill numbers for various revenue sources.
- ii) All monies collected through Pay Bill numbers were remitted daily to Nairobi City County Revenue Account at Co-operative Bank and thereafter swept, on daily basis, to County Revenue Fund account at Central Bank of Kenya.

- iii) A summary of M-PESA collection per month, M-PESA statements, and transfer to County bank account and LAIFOMS reports for the period 2017/18 has been availed for audit.

Committee Observations

- i) **The County Treasury failed to keep proper financial accounting records and this could point to possible defrauding/loss of public funds and poor internal controls.**
- ii) **The County Government has never developed its own internal automated revenue collection system despite various recommendations of the Assembly.**

Committee Recommendations

- i) **The County Government should put strong measures to improve on Own Generated Receipts.**
- ii) **The CEC Member for Finance and Economic Planning should within three months of adoption of this report table before the County Assembly a comprehensive paper on the measures the County Government is taking to develop an internal automated revenue collection system.**
- c) An audit test undertaken at a selected sample of five Revenue Collection points revealed uncollected revenue totaling Kshs. 141,023,084 as follows:

Name of Station	Description	Uncollected Revenue (Kshs.)
Embakasi North	Rental Arrears	2,291,995
Dandora Planning office	Site and Service	95,364,580
Roysambu Sub County	Single Business Permit	17,960,044
Dandora Sub County	Market Rental Stalls	5,758,965
Dandora Sub County	Single Business Permit	19,647,500
Total		141,023,084

Submissions by the CEC Member for Finance

- i) While the County Government projected to collect Kshs.17, 229,464,760 during the year under review, it managed to collect only Kshs. 10,157,594,130.
- ii) The recorded shortfall in revenue collection was because of an interplay of multiple factors including the prolonged electioneering period, slowdown in economic activity, transitional challenges, legal gaps in existing revenue collection legislation and high default rates among payers including government entities.

Committee Observations

The County Government has not developed proper systems and internal control measures to ensure optimal own source revenue collection.

Committee Recommendations

- i) The County Government should put strong measures to improve on Own Generated Receipts.**
- ii) The County Government should account for all the receipts.**
- d) Audit further revealed that four Social Halls at Kariobangi, Dandora Phases II, III and V were being hired out and therefore generated revenue in the year under review, but the same was never accounted for but illegally used at the source.

Submissions by the CEC Member for Finance and Chief Officer Social Services

- i) The County Government put up measures that ensured that upon requisition for use of social halls from clients, a customer is issued with a bill to pay and booking is confirmed only after production of official County receipt.
- ii) The revenue collected from hire of social halls during the year under review was fully accounted and receipted as indicated in the attached monthly revenue analysis of the County Integrated management System for FY 2017/2018 where a total of Kshs. 6,822,500 was realized during the year.

Committee Observations

- i) Failure to keep proper financial accounting records at the social halls implies possible concealing of misappropriation of public funds by responsible officers.**
- ii) Use of revenue at source is a breach of the PFM Act, 2012 and a recipe for pilferage of public funds.**

Committee Recommendations

- i) The Chief Officer Finance and the Chief Officer, Social Services should put in place proper accounting mechanisms to ensure that all revenues collected from social hall is properly accounted for.**
- e) Lease agreements for Parks and Open Spaces, Uhuru Park Boating Services, Jukwa Lounge (Uhuru Park Restaurant) and Safari Bowling Green Restaurant at City Park were explained to have expired. The implication is, therefore, that 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 review.

The CEC Member for Finance submitted:-

i) Parks and Open Spaces, Uhuru Park Boating Services

- The County collected Kshs. 103,735, Kshs. 1,044,698 and Kshs. 2,893,950 from hire of city park spaces, boating services and hire of Uhuru Park respectively. We also noted that a sum of Kshs 840,000 was received and receipted under City Hall Annex Code in respect of hire of City Park. The nature of operations of above mentioned facility are discussed below:
- Boating services facility has been leased to **Finix Limited** since 21st March 2006. The last Lease Agreement expired on 5th April 2017, but the County Government has continued to receive Lease payments from the Company as per the terms of the now expired agreement. The County Government is in the process of competitively seeking to recruit a competent partner to manage the facility for optimum returns and utility.
- The facility has been subject to various court cases from early 2000 when the defunct City Council of Nairobi allowed private sector to operate the facility. The last ruling instructed that the facility could only be leased according to provision of Public Procurement and Disposal Authority Act and indeed the County Government is in the process of finalizing terms of reference to facilitate a competitive process of identifying a management agency.
- Provided is a Letter of authorization from the previous government and copies of payment receipts.

ii) Safari Bowling Green Restaurant

- This facility has been subject to litigation since 2006 involving a private operator who had been brought on board through a lease agreement.
- The previous government engaged a private operator but the current government is seeking a way out not only to be compliant with public procurement laws but also to ensure that the government gets value from its property.

iii) Jukwa Lounge (Uhuru Park Restaurant)

- The County Government is currently in the process of appraising available options for sustainable management of the facility for maximum returns.

Committee Observations

The Committee having considered the evidence adduced and site visit findings observed that the County Government has lost control over the parks and the responsible departments have failed on the following:-

- i) Failed to develop a policy or legal framework on the running of the parks particularly on the running businesses therein.
- ii) Failed to take control of the facilities and are at the mercy of the private individuals running the restaurants and the facilities thus leading to loss of revenue.
- iii) Possible collusion between county officials and the owners of the restaurants thus the continued operation of the facilities with impunity.

Committee Recommendations

- i) That within three (3) months of adoption of this report, the Chief Officer, Finance and the Chief Officer responsible for parks should table a comprehensive sessional paper regarding management of County Parks.
 - ii) That expired leases for Jukwa Lounge (Uhuru Park Restaurant) should be reviewed for possible renewal.
 - iii) That given the status of City Park and the circumstances surrounding Safari Bowling Green Restaurant, the expired lease should not be renewed and the proprietor asked to vacate the premises forthwith.
- f) Examination of records maintained at Dagoretti Sub County Hospital revealed that amounts of Kshs. 3,436,950 and Kshs. 3,127,216 were collected as revenue and banked, respectively. However, it was claimed that due to shortage of essential and basic requirements at the hospital, an amount of Kshs. 309,734 was spent at source.

Submissions by the Chief Officer Health

- i) The funds spent at source were used to cater for emergency expenses such as purchase of emergency drugs, fueling of ambulance and repair of broken down essential equipment. The facility has a revolving Kshs. 50,000.00 Imprest, which, in some emergency cases, is not adequate.
- ii) All funds spent on emergency cases have been fully authorized and accounted for and documents detailing the expenditures have been shared with the auditors. Measures have been put in place to reduce such occurrences as follows
 - Requesting fuel for vehicles and generator from City Hall
 - Approval of an adequate Imprest by the Hospital management committee
 - Use of Safaricom pay bill number services which will avoid use of cash before banking

- We have provided supporting documentation for emergency expenditures spent at source.

Committee Observations

The Committee agreed with the explanation of the Chief Officer, Health Services and the in charge Doctor given the circumstances they operated in then. However, the Committee noted that the continued use of revenue at source is a recipe for possible loss of public funds.

Committee Recommendations

- i) The CEC Member for Health must ensure that all hospitals are well resourced and stocked by medical supplies to avoid spending of revenue at source.
- ii) That the Chief Officer, Health Services should ensure that funds collected at hospitals are banked and well accounted for.
- g) Records show that an amount of Kshs. 80,000,000 was planned to be collected at Inoculation Center at City Hall in 2017/2018 financial year while the actual revenue collected was Kshs. 56,000,000, resulting in an under-collection of Kshs. 24,000,000. Further, the center did not maintain an inventory register to record quantities of vaccines and other medical supplies received, used and spoilt.

Submissions by the Chief Officer Health Services:-

- i) Inoculation services offered by the County Government are one of the main sources of revenue from Health Sector and therefore, adequate measures have always been put in place to support optimal provision of these services.
- ii) While the County projected to collect more revenue from inoculation, we realized only Kshs. 56,000,000.00 after serving 22,400 clients as opposed to a target of 32,000 clients.
- iii) It is worth noting that inoculation services are not only provided on need basis but also the County Government face competition from other independent service providers.
- iv) Provided for verification are Stores Received Statement (SRS) that recorded receipt of vaccines at medical stores, Stores Issuance Voucher (SIV) requesting for vaccines and daily vaccine usage register for audit review.

Committee Observations

The Committee was not convinced with the Accounting Officer's response and noted that there was general lethargy at the Inoculation Centre hence explaining the underperformance in revenue collection.

Committee Recommendations

- i) The Chief Officer, Health Services and the appointing authority should consider transferring officers who have been serving at the Inoculation Centre especially during the period under review and replace with more motivated officers in order to improve performance.**
- ii) Revenue collection at the Inoculation Centre should be automated.**

4.2.5. Cancelled Receipts

Examination of LAIFOMS system show that Nairobi City County Government cancelled two hundred and ten receipts whose combined total value was Kshs. 45,364,475 without supporting documents. No satisfactory explanations have been given for cancelling of these receipts or how the amount of Kshs. 45,364,475 was ultimately accounted for.

Submissions by the CEC Member for Finance

- i) The main problem has been lack of integration of the Webtribe platform with LAIFOMS because of revenue streams that were incorporated onto the Webtribe platform that did not exist on LAIFOMS.**
- ii) The County Government made reversal for receipts to correct various errors created during invoicing stage such as wrong income code, wrong client's details or incorrect business location. Additionally, some errors occurred during capturing of narrations and descriptions on banking slips and revenue stream coding. Where such cases arise, these erroneous receipts are cancelled and correct receipt issued upon authorization. Auditors have been availed with both LAIFOMS and manual reversal registers recording cancelled receipts, reason for cancellation and authorization form.**
- iii) As a remedial measure, the County Government is in the final stages of procuring an integrated revenue management system which will capture all revenue streams on one platform for ease of integration**

Committee Observations

The explanation issued by the CEC Member for Finance confirms the incapacity of the County Treasury in the management of public funds due to poor internal systems and control measures.

Committee Recommendations

- i) **The CEC Member for Finance should put in place proper internal systems and control measures at the County Treasury to ensure proper accounting of public finances.**
- ii) **The CEC Member for Finance should prioritise capacity building of Treasury Officers in order to avoid/minimize the recurrent errors committed in the financial accounting.**

4.2.6. Stale Cheques

Although records show receipt of Cheques totaling Kshs. 1,436,184,416 between 1 July 2016 and 31 August 2017, no explanation has been given for failure to deposit these Cheques into the revenue account.

The CEC Member for Finance submitted:-

- i) All the Cheques receipted from 1st July 2016 to 30th June 2017 amounting to Kshs. 1,382,490,980.00 and from 1st July 2017 to 31st August 2017 amounting to Kshs. 53,639,436 were banked to Nairobi City County Revenue Account at Co-operative Bank.
- ii) The list of the above queried Cheques with corresponding entries in our bank statements has been availed for review. As a remedial measure, once ICRMS is commissioned, the human errors and omissions shall be addressed.

Committee Observations

The observation by the Auditor General on stale Cheques depicts the incapacity of the County Treasury and lack of effective internal control systems at the Treasury.

Committee Recommendations

- i) **The CEC Member for Finance and Economic Planning should implore upon the County Treasury to ensure that all Cheques received are banked on time.**
- ii) **The Chief Officer, Finance should reprimand responsible officers during the period under review.**

4.2.7. Property Rates Adjustments

During the year under review, property rates totaling Kshs. 3,125,001,122 were adjusted to clear/reduce the outstanding property rates balances. Although there are circumstances under which property rates could be adjusted, documentary evidence specifying the reasons for adjusting the amount indicated has not been provided for audit review. As a result, the validity of the adjustment cannot be confirmed.

The CEC Member for Finance submitted:-

- i) It is unfortunate and regrettable that documents requested were not timely availed. These have since been availed to the Office of the Auditor General.
- ii) All future requests for documentary evidence shall receive due attention and timely action.

Committee Observations

Had the Chief Officer, Finance acted immediately after receiving the Auditor General's management letter and provided the requested information, this matter would not have been an audit query.

Committee Recommendations

- i) **The CEC Member for Finance should institute measures to ensure that all Accounting Officers always acts in time when dealing with the Auditor General to forestall audit queries**
- ii) **The County Government should explain and support all Property Rates Adjustments.**

4.2.8. Unsupported Payments to Revenue Account - Kshs. 9,012,746

Examination of IFMIS payments details register revealed that cash payments totaling Kshs. 9,012,746 were made to Nairobi City County Revenue Account. The purpose and nature of cash payments to own account have not been explained.

The CEC Member for Finance submitted:-

- i) The amount of Kshs. 9,012,746 relates to payments erroneously paid into our County Revenue Account by officers who selected wrong bank account from the list of county Bank accounts available in IFMIS.
- ii) However, since the County has an arrangement with Co-operative Bank to sweep all revenue collected to CBK Revenue Fund, these amounts were automatically swept to CBK Revenue Fund. Adjustments to revenue account were made, and the same shared with auditors.
- iii) There was no loss of funds.

Committee Observations

The observation made by the Auditor General and the subsequent response by the CEC Member depicts the incapacity at the County Treasury despite the fact that money was not lost.

Committee Recommendations

The Chief Officer, Finance should reprimand responsible officers at the County Treasury for incompetence.

4.2.9. Irregular Payments to M/S Webtribe Ltd - Kshs. 152,055,313

Records available show that M/S Web tribe was paid an amount of Kshs. 152,055,313 during the year under review for purportedly collecting revenue for the County Government. However, documentary evidence justifying and in support of the payment has not been provided for audit review contrary to the requirement under Section 9(1)(e)(i) of the Public Audit Act, 2015. Consequently, the validity and propriety of the payment cannot be confirmed. Further, examination of a contract agreement signed on 8 April 2014 between Webtribe Ltd and Nairobi City County Government revealed that a transaction payable to Webtribe Ltd by the Nairobi City County Government should be equivalent to 4.5% of all funds collected through Jambopay. In the absence of any documents showing services delivered by Webtribe Ltd, it is not possible to confirm the actual revenue collected or the amount deducted at source by the firm. It is apparent that the contract agreement signed on 8 April 2014 between Webtribe Ltd and Nairobi City County Government contravened the provisions of Article 207 of the Constitution, Section 109 (2) of Public Finance Management Act, 2012 and regulation 63 (4) of Public Finance Management (County Governments) Regulations, 2015.

In addition, the system for revenue collection in the Nairobi City County is that clients are advised of the exact amount they are supposed to pay and deposit in the county revenue account upon which, receipts are issued by the County revenue officers after presenting bank pay-in-slips. In the circumstances, Webtribe has no role in revenue collection and therefore the payment of Kshs. 152,055,313 to Webtribe was unlawful.

According to a letter dated 19 February 2015, the tender committee was to meet and vary the contract for cash payments from 4.5% to 1.25%. However, a new contract prepared on this basis has not provided for audit review.

The management has denied the auditors access to Jambopay system and Trust Fund managed by PKF in the banks listed below despite severally being requested in accordance with Section 9(e) of Public Audit Act, 2015:

	Bank Name	Currency
1	Co-operative Bank Ltd	KES
2	I & M Bank Ltd	KES
3	I & M Bank Ltd	USD
4	Stanbic Bank Kenya Ltd	KES
5	National Bank Ltd	KES
6	Family Bank Ltd	KES
7	Equity Bank Ltd	KES
8	Commercial Bank of Africa	KES
9	NIC Bank	KES
10	Bank of Africa	KES
11	Barclays Bank	KES

Submissions by the CEC Member for Finance

- i) The documents requested were voluminous and are available.
- ii) Management did not deny the auditors access to the system as alleged in the audit report. Webtribe Ltd own all the source codes and rights to the system.
- iii) The County Government's contract with Webtribe expired in April 2019, and the County is now in the process of migration and transition to a new system upon completion of the procurement process. The new contract shall be cognizant of matters raised in this audit.

Committee Observations

- i) **The matter of M/s Webtribe the provider of Jambo Pay revenue collection system had conclusively been addressed by the previous adopted Committee Report, which had recommended termination of the contract between the County Government and M/s Webtribe Ltd. Further, the Committee had recommended that the County Executive develop its own foolproof internal automated revenue collection system. These recommendations have not been fully implemented.**
- ii) **There are sufficient reasons to believe that public monies were lost because of the engagement between Webtribe Ltd and County Government over revenue collection.**

Committee Recommendations

That due to the nature of the contract and transactions relating to Jambo pay revenue collection system, a multi-agency approach of EACC, DCI and DPP be initiated by the agencies and immediately commence investigations of all responsible officers within the County Government and Webtribe Ltd for possible loss of funds and those found culpable to be prosecuted.

4.2.10.Nairobi City Liquor Licensing Board

The County has not prepared Financial Statements for two (2) consecutive years 2016/2017 and 2017/2018. Further, Bank Statement for Account No.01141230914900 for the two (2) financial years have not been availed for audit review. In this circumstance, it is not possible to confirm accuracy of receipts and their legal use in accordance with Article 229(6) of the Constitution.

Submissions by the CEC Member for Finance

- i) Nairobi City County Alcoholic Drinks Control and Licensing Board was established pursuant to Nairobi City County Alcoholic Drinks Control and Licensing Act of 2014. The Board was established as an autonomous entity and operates under its own mandate with independent fiscal obligations.
- ii) The County has since received the financial statements from the Board and prepared a consolidated financial statement as provided for review.

Committee Observations

- i) The Committee heard from the Auditor General that this matter had been resolved as the Accounting Officer had submitted the Financial Statements for the queried period review vide a letter Ref. NCC/ADCLB/FIN/2 dated 28th May, 2018 and the that the statements reflected the true financial status of the Board at the time.
- ii) The Committee noted that had the Accounting Officer ensured timely action on the Auditor General's management letter, this matter would not have been an audit query.

Committee Recommendations

The Accounting Officer should institute measures to ensure that the Nairobi Liquor Licencing and Control Board always acts in time when dealing with the Auditor General to forestall audit queries.

4.3. Expenditure

4.3.1 Discrepancy between Financial Statements and Ledgers

The statement of receipts and payments for the year ended 30 June, 2018 reflects expenditure in respect of compensation of employees - Kshs. 12,982,011,406, use of goods and service - Kshs. 6,447,658,180 and acquisition of assets 1,435,678,846, all totaling Kshs. 20,865,348,432. However, the ledger provided in support of the expenditure reflects a total of Kshs. 17,212,814,158, resulting in unexplained and reconciled variance of Kshs. 3,652,534,274. The expenditure of Kshs. 6,447,658,180 on use of goods and services includes unsupported re-allocations totaling Kshs. 489,645,787. In addition, the expenditure of Kshs. 1,435,678,846 on acquisition of assets includes an amount of Kshs. 11,808,697 that was wrongly charged to that expenditure head. In view of the foregoing, the accuracy of expenditure figures reflected against compensation of employees, use of goods and services and acquisition of assets cannot be confirmed.

Submissions by the CEC Member for Finance

- i) The financial statements figures are derived from the Appropriation accounts. When balances in the Account analysis report and the Appropriation account are compared, a variance is noted in all the expenditure items reported under Use of Goods and Services and Acquisition of Assets. There are 14-sector code 5311 up to 5325 excluding 5322 which is county assembly.
- ii) Account Analysis Report shows ledger balances for sectors 5311 up to 5323. The ledger balances for last two sectors Urban Renewal and Housing (5324) and Ward Development Fund (5325) were missing in the Account Analysis Reports. This is an error we have notified the IFMIS department in the National Treasury but by the time of preparing the financial statements, the error had not been addressed. However, there were expenditures incurred outside the IFMIS system as tabulated below:-

Details	Economic item	Amount	Reasons
KRA (Agency notice)	Other Expenses	350,000,000	Direct charge to County CRF account through agency notice issued by KRA
Insurance Costs	Insurance Costs	1,398,522,243	Payment towards staff medical cover. This amount was processed in IFMIS through Journal entries. These journals remained un posted in the system as of 30 th June 2018 but at the

			same time reflected in the vote book and Appropriation Accounts. A screen shot for two journal entries passed is provided.
Bank Charges	Other Expenses	101,779,511	These were direct charges to the county bank accounts
Coop Bank Overdraft	Repayment of principal on domestic lending	868,192,719	This was also a direct charge to the bank account.
Legal fees	Other Operating Expenses	293,393,146	Decretal sums paid after court cases

Committee Observations

- i) The observation made by the Auditor General and the subsequent response by the CEC Member depicts the incapacity at the County Treasury despite the fact that money was not lost.
- ii) Payment outside IFMIS is a breach of the PFM Act, 2012 and a recipe for financial misappropriation.

Committee Recommendations

- i) The CEC Member for Finance should take personal interest in the operations of the County Treasury with a view of embedding strong internal control systems and adherence to the PFM Act, 2012 and other financial procedures and processes.
- ii) The Chief Officer, Finance should reprimand responsible officers at the County Treasury for incompetence.

4.3.2 Repayment of Principal on Domestic Lending and on Lending

The statement of receipts and payments reflects an expenditure of Kshs. 868,192,719 against repayment of principal on domestic lending and on lending during the year under review. The expenditure relates to a bank overdraft that was repaid in 2017/2018 financial year. However, the amount differs with the bank statement figure of Kshs. 1,032,600,061, resulting in unexplained variance of Kshs. 164,407,342. The repayments were effected between July 2017 and December 2017, and the County Government paid interest amounting to Kshs. 50,061,431 during the financial year. Information available indicates that the bank overdraft was acquired in October 2014. However, loan agreement and contract documents detailing terms and conditions of the overdraft

have not been provided for audit review. Consequently, the validity of the repayment of principal on domestic lending and on lending and interest payment thereon cannot be ascertained.

Submissions by the CEC Member for Finance

- i) It is true that Kshs. 1,032,600,061 was debited to Revenue Bank Account at Co-operative Bank. The County Government got an approval for a revolving overdraft facility which was mainly used to finance payment of County staff monthly salaries. Once the overdraft was taken, funds were subsequently transferred from Nairobi City County Revenue Account to County Operational Account to repay the overdraft.
- ii) It was noted that when reporting on FY 2017/2018, the County Treasury omitted repayment entries for the month of July and August 2017 and hence the Kshs. 164,407,342 difference. The correct figures have since been restated and provided the schedule for audit.

Committee Observations

The Committee still notes that the matter of the KCB bank loan require urgent policy intervention to avoid further loss of public funds and breaching of PFM Act, 2012.

Committee Recommendations

- i) **The CEC Member for Finance and Economic Planning should take personal interest in this matter of KCB bank loan and within three months of adoption of this report table a comprehensive paper before the County Assembly on how the loan shall be cleared to forestall further loss of public funds.**
- ii) **That prior approval from the County Assembly should always be sought by the County Treasury before an overdraft is processed.**
- iii) **The County Government should reconcile and support expenditure on Repayment of Principal on Domestic Lending and on Lending.**

4.3.3 Other Payments

The statement of receipts and payments reflects an expenditure of Kshs. 451,779,511 against Other Payments, comprising of bank charges amounting to Kshs. 101,779,511 and unbudgeted debt repayment KRA agency notice of Kshs. 350,000,000. These payments were made outside the IFMIS contrary to regulation 109 of Public Finance Management (County Governments) Regulations, 2015. Further, bank statements for sixteen out of thirty-seven bank accounts provided for audit review reflected cumulative bank charges and loan interest of Kshs. 292,135 and Kshs. 50,061,431 respectively. In the absence bank statements for the remaining twenty-one bank accounts, it is not

possible to confirm the validity and completeness of the bank charges amounting to Kshs. 101,779,511.

The CEC Member for Finance submitted:-

- i) The Kenya Revenue Authority recovered Kshs. 350,000,000.00 directly from our CBK Revenue Fund Account in accordance with Section 42(13) of Tax Procedures Act of 2015 which gives KRA power to collect tax from person owing money to a taxpayer. KRA Debt Enforcement Division wrote to Central Bank of Kenya (CBK) an Agency Notice of Kshs. 350,000,000 which led to the recovery of the said amounts from Nairobi City County Revenue Fund at CBK.
- ii) The Bank Charges were also deducted directly from our Bank accounts as per terms and conditions of contract signed during opening of bank accounts and requesting for overdraft facility.
- iii) Nairobi City County closed several bank accounts during the year and therefore these accounts were not included in the financial report. We provided to the audit team the bank statements for all County operational bank accounts, as well as copies of the letters of requests for closure for each of the accounts that were closed in other banks.

Committee Observations

Failure by the County Government to meet its obligations leads to further loss of public funds due to the interests and penalties incurred and breach of law.

Committee Recommendations

- i) **The County Government through the County Treasury must at all times meet its obligations including remitting of statutory deductions to relevant entities such as KRA.**
- ii) **The Accounting Officer of the County Treasury must at all times provide complete financial statements/records and disclose all financial information to the Auditor General within the stipulated period of three months after close of the Financial Year as provided for in Article 229(4) of the Constitution, and Section 149(2)(k) of the Public Finance Management(PFM) Act, 2012.**
- iii) **The Accounting Officer must at all times discharge his or her responsibilities in management of public finances as provided for in Section 68 of the Public Finance Management Act, 2012.**

iv) The CEC Member for Finance and the respective Chief Officer for Finance must be held liable for the loss incurred due to their underperformance.

4.4. Acquisition of Assets

4.4.1. Unsupported Expenditure

Although the statement of receipts and payments reflects an expenditure of Kshs. 1,435,678,846 in respect of acquisition of assets in 2017/2018 financial year, only an amount of Kshs. 873,837,452 has been verified as paid. No documentary evidence has been provided in support of the remaining amount totaling Kshs. 561,841,394. As a result, the accuracy and completeness of the expenditure of Kshs. 1,435,678,846 on acquisition of assets cannot be confirmed.

Submissions by the CEC Member for Finance

- i) As noted in previous responses, the County received two delayed Exchequer Releases of Kshs 1,232,160,000.00 and Kshs. 561,841,394 on 4th and 5th July 2018 respectively. These funds were used to make payments for the expenditure incurred in FY 2017/2018 yet the payments were made at the beginning of FY 2018/2019 that explains the variance.
- ii) CBK Revenue Fund account statements have been provided and schedule of payments that were made after 30th June 2018 but included in FY 2017/2018 financial statements.

Committee Observations

The Committee noted that while the expenditure might have been lawful as explained, failure to account for all the acquired assets could imply that the assets were never delivered/acquired and thus leading to loss of public funds.

Committee Recommendations

The DCI & EACC should conduct further investigations with respect to the queried assets to ascertain whether the said assets were actually acquired and there was value for money.

4.4.2. Payments not Captured in IFMIS

Payments totaling Kshs. 11,977,570 indicated below were excluded from IFMIS for un-explained reasons. In addition, supporting documents for the expenditure have not been provided for audit review:

Name	Details	Reference	Amount (Kshs)
Computonic Solutions Ltd	Supply and delivery of cleaning Materials NCC/RPW&T/Q117/2016-2017	AQ007/PI-046/2017-2020	2,119,112.00

Seanwills Investments	supply and delivery of Galvanized Poles & Stainless Fastening Clips NCC/RPW&T/041/2017-2018	AQ007/PI-047/2017-2021	3,790,733.00
Span Dimension Company Ltd	Drainage Improvement on selected roads in Ziwani/ Kariokor ward NCC/RPW&T/323/2016-2017	AQ007/PI-049/2017-2023	4,130,789.00
Tripple AAA Construction Company	Public lighting installation at Airbase Ward NCC/RPWT/446/14-15and	AQ007/PI-051/2017-2025	1,936,936.00
Total			11,977,570.00

In view of the above, the validity and propriety of the expenditure of Kshs. 11,977,570 cannot be confirmed.

The CEC Member for Finance and the Chief Officer submitted:-

Printed reports show that these payments were processed via IFMIS and the supporting documentations, including IFMIS printout and payment vouchers, relating to the said payments were availed them to the Auditors.

Committee Observations

- i) Spending off- IFMIS leads to accountability challenges and it is a potential cause of loss of funds through misappropriations.
- ii) Failing to provide financial records to the Auditor General during audit period is not only a breach of the law but could imply potential concealing of misuse of public funds.

Committee Recommendations

The CEC Member, Finance should ensure that the County Treasury effects all payments through the IFMIS system.

4.5. Unsupported Payment Vouchers

Payment Vouchers for expenditure totaling Kshs. 865,573,662 were not supported by relevant documentation and appropriate authority contrary to the requirements under regulation 104 of Public Finance Management (County Governments) Regulations, 2015. In the circumstances, the validity and propriety of the payments totaling Kshs. 865,573,662 cannot be ascertained.

The CEC Member for Finance submitted:-

- i) Auditors reflected the above payments in the IFMIS-generated reports as run at the close of the financial year 2017/2018. It is worth noting that the County will pay not all payments that are processed up to the Internet Banking (IB) level at the end of the financial year due to cash flow constraints. Such payments are stopped in IB, voided in IFMIS and re-invoiced in the following financial year.
- ii) For the actual payments done, supporting documents were submitted for audit review and the IB's unpaid payment schedules provided to auditors.

Committee Observations

- i) **The Committee agreed with the explanation of the CEC Member, however, it observed that such information should always be provided at the time of audit in order to forestall audit queries.**
- ii) **Failure to adhere to approved budgets leads to unnecessary Pending Bills.**

Committee Recommendations

- i) **The Chief Officer, Finance should ensure that expenditures are processed based on the approved budget and various Accounting Officers must ascertain availability of funds before approval of any expenditures in order to avoid unnecessary pending bills.**
- ii) **Payments should be made when all supporting documents have been received.**
- iii) **The Committee recommends that the CEC Member for Finance should institute measures to ensure that all Accounting Officers always acts in time when dealing with the Auditor General to forestall audit queries.**

4.6. Missing Payment Vouchers

Payment Vouchers for expenditure totaling Kshs. 2,456,754,179 have not been produced for audit review. As a result, the validity and propriety of the payments totaling Kshs. 2,456,754,179 cannot be ascertained.

The CEC Member for Finance submitted:-

- i) The referred documents were inaccessible because the same had been handed over to the Committee on Finalization of Pending Bills and Audit of the Procurement Processes that was established by H.E the Governor pursuant to Gazette notice 2101 of 9th March, 2018. As a result, Management could not retrieve them before the committee completed its task.

- ii) Further, there was a managerial reorganization within the County Treasury thus further contributing to the delay in availing of the documents.
- iii) Scrutiny of documents by Pending Bills Committee has since been completed, the County Treasury establishment stabilized and the documents submitted for audit review.

Committee Observations

The Committee noted that the matter remained an audit query until when the payment vouchers are availed and reviewed by the Auditor General to ascertain the propriety of the expenditures.

Committee Recommendations

The Auditor General to report on the status of the audit query in the subsequent audit cycles.

4.7. Other Grants and Transfers

The statement of receipts and payments reflects an expenditure of Kshs. 474,187,000 in respect of Other Grants and Transfers as summarized below:

Description	Amount Kshs.
Scholarships and other educational benefits	421,287,000
Current Grants to government agencies and other levels of Government	52,900,000
Total	474,187,000

However, source documents to support the scholarships and other educational benefits have not been provided for audit review. As a result, it has not been to confirm whether the amount of Kshs. 421,287,000 was actually paid in full to the intended beneficiaries.

CEC Member for Finance and Chief Officer Finance submitted:-

- i) The County Government awarded bursaries to poor and needy students as per Nairobi City County Regulations, 2016. Each elected Member of County Assembly (MCA) was given Bursary Forms that were distributed to, and filled by, beneficiaries. The MCA, in consultation with Ward Bursary Committee, approved amount payable for each applicant. Payment vouchers (PV) were raised for each bursary form and processed and cheque issued to MCA who distributed them to the beneficiaries.

- ii) The Ward Bursary Forms, Payment Vouchers and Cheques counterfoil were availed to auditors

Committee Observations

The Committee agreed with the explanation of the CEC Member, however, it observed that such information/records should always be provided at the time of audit in order to forestall audit queries.

Committee Recommendations

The Committee recommends that the CEC Member for Finance should institute measures to ensure that all Accounting Officers always acts in time when dealing with the Auditor General to forestall audit queries.

4.8. Accounts Receivables

4.8.1 Debtors

In the report for 2016/2017, it was indicated that accounts receivables were amounting to Kshs. 307,697,852,532 as at 30 June 2017. However, the management has for the year under review provided debtors list totaling Kshs 1,803,990,440 only as at 30 June, 2018. No evidence has been provided to show how the difference of Kshs. 305,893,862,092 of the debts was cleared in 2017/2018 financial year. The aging analysis for the debtors has also not been provided for audit. Further, the management has not provided documentary evidence in respect of sundry debtors, estates other than the Eastland, tenants purchase scheme, loading zones, Eastland Revenue Office, advertisements, single business permits and way-leave fees.

In addition, contrary to the guidelines issued by the Public Sector Accounting Standards Board, the management did not disclose in the notes to the financial statements the accounts receivables. The management has also not provided explanations on measures taken to collect the long outstanding accounts receivables.

CEC Member for Finance and Chief Officer Finance submitted:-

- i) The reported figure of Kshs 1,803,990,440 included in the financial statement was inaccurate because it omitted outstanding amounts for Land rates debtors, sundry debtors, estates other than the Eastlands, tenants purchase scheme, loading zones, Eastland Revenue Office, advertisements, single business permits and way-leave fees.

- ii) The amount of Accounts Receivable as at 30th June 2018 should be Kshs. 424,225,597,677.00 and the same reflects in the financial statements submitted to the auditors with corresponding supporting schedules.

Committee Observations

The County Treasury failed to project the true financial position of the County and that could mislead fiscal projections of the County.

Committee Recommendations

- i) **The County Treasury must always project the true financial position of the County in its financial records and the same availed to the Auditor General during audit.**
- ii) **The Accounting Officer should institute measures to ensure that the County Executive adheres to International Public Sector Accounting Standards (IPSAS) consistent with the Public Finance Management Act, 2012.**

4.8.2 Outstanding Imprests

The statement of assets and liabilities reflects outstanding imprests balance of Kshs. 78,385,142 while the ledger reflects an amount of Kshs. 96,439,550 as at 30 June 2018, thus resulting in unreconciled difference of Kshs. 18,054,408. Further, the outstanding imprests balance is not supported by updated imprests register. Consequently, it has not been possible to confirm the completeness and accuracy of the imprests balance of Kshs. 78,385,142 as of 30 June 2018.

CEC Member for Finance and Chief Officer Finance submitted:-

- i) Noteworthy is the fact that management response factored in actual imprest payment totaling to 78,385,142.00 whereas the auditors imprest figure of Kshs. 96,439,550 extracted from IFMIS reports included all amounts processed (whether paid or not) as at June 30th 2018. IFMIS system recognized expenditures transmitted to Internet Banking (IB) platform as having been paid, regardless of whether the payee has received the cash or not, hence the reconciled figure of Kshs. 78,385,142.00 which reflects the true position of un-surrendered amount.
- ii) The County Treasury through Memo Ref: FIN/3/6/218/IMP dated 18th September 2018 instructed the Chief Officer Public Service Management to recover un-surrendered imprest of Kshs. 78,385,142 from County Officers which was effected as per IPPD schedule submitted for audit.

Committee Observations

Accounting Officers contravened Government financial regulations and procedures on imprest as supplemented by various circulars issued by National Treasury.

Committee Recommendations

- i) All Accounting Officers should institute measures to ensure that County Government staff adhere to government regulations and procedures on imprests to guard against malpractices.**
- ii) The relevant Accounting Officers to adhere to the PFM Act, 2012 on imprest by instituting recovery of funds as provided therein.**

4.9. Pending Accounts Payables

Included under Other Important Disclosures to the financial statements is a summary of pending accounts payables amounting to Kshs. 66,576,014,141 as at 30 June 2018, an increase of Kshs. 10,059,679,063 or 18% from the previous year's balance of Kshs. 56,516,365,078. Included in the accounts payables balance is an amount of Kshs. 3,024,371,706 for an outstanding loan as at 30 June 2018. However, no records have been provided for audit review regarding the purpose, existence, terms and conditions and repayment period of the loan. In addition, tender documents; contract agreements; local purchase/service orders; invoices/certificates of works; and complete schedules detailing names of the contractors/suppliers, purchase/service order numbers, invoice/certificate numbers and description of goods supplied, services provided or works done have not been provided for audit review. As a result, the validity, completeness and accuracy of the pending accounts payables totaling Kshs. 66,576,041,141 cannot be ascertained. Had the pending accounts payables of Kshs. 66,576,041,141 as at 30 June 2018 been paid and the expenditure charged to the accounts for the year under review, the statement of receipts and payments for the year ended 30 June ,2018 would have reflected a deficit of Kshs. 64,252,709,232 instead of the surplus of Kshs. 2,323,331,909 now shown. Accumulation of huge pending bills is an indication that the Nairobi City County Executive entered into financial commitments without adequate resources contrary to regulation 50 of the Public Finance Management (County Governments) Regulations, 2015.

CEC Member for Finance and Chief Officer Finance submitted:-

- i) The growth in accounts payable was mainly due to the high interest rates charged by statutory creditors with Laptrust charging an interest of 15% per annum compounded, Lapfund charging 36% per annum compounded.
- ii) KRA on the other hand charged a rate of 5% (one off) and 2% for penalty and interest respectively for all taxable amounts that were remitted late or remained outstanding.
- iii) The contract documents for the KCB bank loan of Kshs. 3,024,371,706 were provided to the auditors.
- iv) By Gazette Notice No.2101 of 9th March 2018, His Excellency the Governor of Nairobi City County established a Committee on Finalization of Pending Bills and Audit of Procurement Processes which was to analyze any unpaid claims or bills on account of provision of goods and services to Nairobi City County.
- v) The committee has since completed the scrutiny and verification process and, consequently, the complete creditors schedules detailing names of the contractors/suppliers, purchase service order numbers, invoice/certificate numbers and description of goods supplied, services provided or works done were provided for audit review.

Committee Observations

- i) **The Chief Officer Finance during the year under review by failing to keep updated records on pending accounts payables failed on his duties as the Accounting Officer of the County Treasury.**
- ii) **Failure by the Accounting Officer to keep proper records of all pending bills may result in inflated demands by county creditors since there would be no records to base on.**
- iii) **Pending Bills relating to statutory deductions of employees is because of complete failure by the County Treasury to remit the deducted amounts to the relevant statutory entities thus exposing the County Government to huge unnecessary penalties every month.**
- iv) **The County Executive hence they require forensic auditing before they are settled illegally acquired some of the loans regarded as pending bills.**
- v) **The County Executive has failed to make public the report of the taskforce on pending bills and is yet to fully implement the report of the Auditor General on pending Bills.**

Committee Recommendations

The CEC Member for Finance and Economic Planning should take personal interest in the matter of pending Bills and table before the County Assembly within one (1) month of a adoption of this report a paper/framework indicating on how the County Government shall clear all pending bills as reported by the Auditor General in the special audit report on pending bills. The payment plan should be such that the pending bills are cleared before the end of the term of the current Government.

4.10. Non-Current Assets and Assets Register

Included also under Other Important Disclosures to the financial statements is a summary of fixed assets register with assets balance of Kshs. 19,804,558,953 as at 30 June 2018. During the year under review, the Nairobi City County Executive did not maintain an accurate and up to date assets register contrary to Section 149(2) (o) of the Public Finance Management Act, 2012. Consequently, the completeness and accuracy of the assets balance of Kshs. 19,804,558,953 as at 30 June 2018 cannot be confirmed.

CEC Member for Finance and Chief Officer Finance submitted:-

- i) The County Government maintains a register of its assets that is quarterly updated. The same was submitted to the auditors for the assets acquired during the year under review.
- ii) It is worth noting that the County asset register has all assets while, for the purposes of financial reporting, the FY 2017/2018 asset register included only assets acquired and paid for during the year.

Committee Observations

The absence of a comprehensive fixed asset register was putting the County's assets in a vulnerable position as they became increasingly susceptible to theft through fraud.

Committee Recommendations

The CEC Member for Finance and Economic Planning should ensure that the County Government prepares a comprehensive digitized fixed assets register and table a report on the same in the County Assembly within three (3) months of adoption of this report.

4.11. Budget Performance

4.11.1. County Own Generated Receipts

According to the summary statements of appropriation - recurrent, development and combined for the year ended 30 June 2018 the County Government had planned to collect County Own Generated Revenue totaling Kshs. 17,229,464,760 in the year under review. However, the actual collection in 2017/2018 was Kshs. 10,157,594,130, resulting in unexplained shortfall of Kshs. 7,071,870,630 or 41%. In 2016/2017, County Own Generated Revenue collected was Kshs. 10,933,201,474. Therefore, compared to the year under audit, the implication is that there was a reduction in the amount collected by Kshs. 775,607,344. No satisfactory reasons have been given for the reduction in revenue collected.

CEC Member for Finance and Chief Officer Finance submitted:-

- i) The County had projected to collect Kshs. 17, 229,464,760 but only managed to collect Kshs. 10,157,594,130 due to the various challenges as indicated below;
 - a) The long six months official electioneering period which begun on 28th May 2017 until H. E the President of Kenya was sworn in on 28th November 2018. During the electioneering period, it was not possible to carry out effective inspection or enforcements of revenue.
 - b) Failure by National Government to pay for Rates (CILOR) and reserved parking
 - c) Lack of legal framework to enforce payments leading lengthy litigation process due injunctions
- ii) However, the county has put in place measures to ensure that the revenue projected is realized. Current Interventions include:-
 - a) The County has embarked on a vigorous enforcement exercise through the various Revenue units, Debt collection unit (DCU) and the formation of a Revenue Task Force.
 - b) The county procured verification gadgets to confirm authenticity of receipts, licenses and seasonal parking tickets to detect fake payments.
 - c) The county has embarked on clamp down operations on rate defaulters where defaulting properties are put under management of the County to recover rent in lieu of rates.

- d) Introduction of the finance bill 2018 which is awaiting gazettelement and publication is aimed at improving county own source revenue by introducing new revenue streams.
- e) The county is in the process of opening new rates records for about 50,000 properties that have been issued with title deeds following a presidential directive to enhance revenue and sending notices to county defaulters.
- f) The County has since reduced its budgeted own source revenue to a realist figure of Kshs. 15Billion which will be reviewed based on future performance.

Committee Observations

- i) **Failure to meet revenue targets negatively affects the implementation of budgeted programs and activities.**
- ii) **The County Executive has continued to fail to implement assembly recommendations on enhancing revenue collection such as adoption of an internal automated revenue collection system.**

Committee Recommendations

- i) **The County Treasury should put measures in place to help meet revenue targets.**
- ii) **The CEC Member for Finance should within one (1) month of adoption of this report table a report before the County Assembly on measures being taken to enhance revenue collection particularly on the adoption of an internal foolproof automated revenue collection system.**

4.11.2.Overall Under-Expenditure

According to the summary statements of appropriation - recurrent, development and combined for the year ended 30 June, 2018 the total expenditure budget was Kshs. 33,614,180,418 out of which, an expenditure of Kshs. 23,901,079,991 was incurred resulting in underutilization of budget by Kshs. 9,713,100,427 or 29%. The under-expenditure is an indication that budgetary resources were not used in an efficient and effective way. Further, the overall/net underutilization of budgetary provisions by Kshs. 9,713,100,427 affected planned development programs and thus affecting negatively on service delivery to the residents of Nairobi City County.

CEC Member for Finance and Chief Officer Finance submitted:-

- i) The underutilization of the budget was occasioned by the county not achieving its revenue targets as was budgeted thus the underutilization of the budget by Kshs 9,330,795,497.

- ii) Salary and other non-discretionary expenditures took precedence over other County expenditures hence absorption of other expenditures were adversely affected resulting in the under absorption.
- iii) It is also worth noting that the County Government has always prioritized its expenditure to ensure that resources are directed to the services most needed by Nairobians.
- iv) The County Government has now embarked on business survey, robust revenue enforcement exercises and other strategies to enhance revenue in order to realize optimum revenue collection and thus achieve best absorption rate. The County Government is also in the process of outsourcing debt management service.

Committee Observations

Under-expenditure of the budget always translates to non-implementation of budgeted programs.

Committee Recommendations

- i) **The County Executive must at all times implement the budget as approved.**
- ii) **The Accounting Officers should ensure that each Sector/Department prepares a procurement plan at the commencement of the Financial Year and the said plans should strictly be adhered to. Each Department should be allowed financial independence to be able to implement its programs.**

4.11.3. Failure to achieve 30% allocation on Development Budget

Regulation 25(I) (g) of Public Finance Management (County Governments) Regulations, 2015 directs that at least 30% of the County Government total budget be spent on development. However, according to the summary statement of appropriation - development for the year ended 30 June 2018 the County Government spent an amount of Kshs. 1,413,319,060 only or 6% on development out of the total combined actual expenditure of Kshs. 23,901,079,991. The management was therefore in breach of the law.

CEC Member for Finance and Chief Officer Finance submitted:-

- i) This was occasioned by cash flow challenges resulting from long electioneering period and thus gave priority to non-discretionary items, such as staff salaries, that are first charge on the County revenue Fund.
- ii) The reported low absorption rate for capital expenditure does not take into account; pending bills paid that arose from unresolved development commitments in past years. This has led to underreporting concerning actual development expenditure.

- iii) The County's approved development plan has since provided further guidelines on effective development planning, project management and monitoring that be aimed at enhancing county entities' effectiveness in implementation of capital programmes.

Committee Observations

The lack of adherence to the Regulation 25(1) (g) of Public Finance Management (County Governments) Regulations, 2015 on spending of 30% of the budget on development implies that the County shall not realize the required development.

Committee Recommendations

- i) **The CEC Member for Finance must ensure adherence to the Regulation 25(1)(g) of Public Finance Management (County Governments) Regulations, 2015 on spending of 30% of the budget on development.**
- ii) **The County Treasury should adhere to budgetary provisions and controls.**

4.12. Compensation of Employees

4.12.1. Unsustainable Wage Bill

The statement of receipts and payments reflects an expenditure of Kshs. 12,982,011,406 on compensation of employees, which is 49.4% of the County Government's total revenue of Kshs. 26,276,416,586 for the year ended 30 June, 2018. The expenditure on wages and benefits therefore exceeded the thirty-five percent limit prescribed under regulation 25(1)(b) of the Public Finance Management (County Governments) Regulations, 2015.

Submissions by the CEC Member

- (i) The County inherited a huge workforce from the defunct City Council who were already enjoying a negotiated terms and conditions of service and which is protected under Section 138 (1) of the County Government Act, 2012 which states that an officer shall not be removed from the service except in accordance with the terms and conditions applicable to the officer.
- (ii) The County also received staff from National Government who were performing devolved functions and were absorbed as per their existing terms and conditions of service.
- (iii) Going forward, the County is expected to retire over three thousand 3,000 staff in the next five (5) Years under normal mandatory retirement, which will bring down the payroll costs by approximately 2.9 billion per annum. This will be within the threshold of 35%.

Committee Observations

- i) **The County Government wage Bill has run out of control and almost 50% of the annual county revenues are spent on employee wages thus compromising service delivery. The plans to rationalize the service, which have been under implementation, have taken far too long with no results. This cast aspersions on the competency of the CPSB together with the PSM Sector to address the matter.**
- ii) **A majority of the workers who contribute towards a huge wage bill are the unskilled officers yet the County government require technical officers who can provide specialized skills that the County is in need of such as engineers, architects, urban planners, land surveyors, doctors, nurses, lawyers, accountants amongst others.**
- iii) **Despite the high wage bill, the CPSB continue to advertise for recruitment of officers.**

Committee Recommendations

- i) **The CPSB should fast track and finalize its policy on voluntary early retirement so that surplus officers especially the unskilled should be encouraged to retire. Those who have reached the legal retirement age across the entire County Government should be made to retire.**
- ii) **The CPSB should focus on recruiting technical officers in the areas where there is a deficit and avoid ballooning the wage bill with unskilled officers.**

4.12.2. Increase in Temporary Workers Wage Bill

Examination of records revealed that the expenditure on temporary workers' wages increased from Kshs. 8,465,010 in 2016/2017 to Kshs. 21,427,780 in 2017/2018 by Kshs. 12,962,770. However, payments vouchers, registers, master rolls and relevant schedules in support of the expenditure incurred on hire of casuals have not been provided for audit review. As a result, the validity and propriety of the expenditure of Kshs. 21,427,780 incurred on casual employees cannot be confirmed.

The Chief Officer, PSM submitted:-

- (i) **Due to the increasing workload and shortage of both skilled and unskilled staff in some hospitals, the County engaged Ninety-Six (96) casual workers to fill gaps in various service**

delivery. The Health Management Board (HMB) always approves their emoluments in the quarterly budget as per the Facility Improvement Fund (FIF) guidelines.

- (ii) The hospitals spent Kshs. 10,275,875 casual labour during the year under review.
- (iii) Public Works, Roads, Transport and Infrastructure Sector also hired casuals, with the approval of county Public service Board, and paid out Kshs. 11,151,905.00 to fast-track clearing of bushes and opening of drainage systems as directed by H. E the President in order to mitigate against flooding, loss of life and property.
- (iv) That supporting documentation have been shared with the auditors.

Committee Observations

- i) **Employment of Casual laborers has become a conduit of syphoning county resources especially where there are no accountability mechanisms as observed by the Auditor General.**
- ii) **Over-reliance on casual employees is expensive in the end and pose a risk both the hospital's property and the patients since they lack the sense of accountability.**

Committee Recommendations

- i) **The CPSB & PSM should within two (2) months of adoption of this report develop a policy on employment of casual labourers.**
- ii) **The EACC should conduct further investigations on the recruitment of casual labourers during the year under review and subsequent years to ascertain whether there was actual loss of funds and take appropriate action including prosecution of those found culpable.**
- iii) **The PSM should always account and keep proper records for all casual labourers engaged.**

4.12.3. Staff Establishment

Contrary to the provisions of regulation 119 of the Public Finance Management (County Governments) Regulations, 2015 the County Government operated during the year under review without an authorized staff establishment. Consequently, it has not been possible to ascertain how the budgetary allocations for personnel costs during the year were determined in the absence of a detailed costing of human capital plan as approved by the County Public Service Board and County Treasury.

The Chief Officer, Public Service Management submitted:-

- (i) The County Executive Committee members (CECM) met on 16th February 2018 where the County structure was submitted, discussed and approved.
- (ii) As stated earlier, the county staff was either inherited or devolved. Budgetary allocation for staff costs was based on the actual in-posts of inherited or devolved officers distributed by the functions that they perform.
- (iii) We have shared with the auditor's minutes of CECM meeting that approved the County Structure and itemized annual staff costs for each and every officer employed by the County.

Committee observations

- i) As noted by the Committee in its previous report, lack of a human resource establishment explains the confusion that has continued to engulf the County Executive with almost all positions being held in acting capacity. This reduces accountability and ultimate out-put of employees.
- ii) The process of developing of an institutional structure and a human resource policy has taken far too long and consumed a lot of tax payer's money through engagement of various consultants with no output.
- iii) The County Public Service Board (CPSB) has failed on its mandate to advise the County Executive on critical human resource issues including the staff establishment and any recruitment exercise it has engaged in has never been successful.

Committee recommendations

The CEC Member, PSM and CPSB should take a personal interest in this matter and liaise with the CPSB ensure that a staff establishment is put in place within a period of three (3) months of adoption of this report and report the same to the County Assembly.

4.13. Procurement of Goods, Services and Works

4.13.1. Documents Not Provided for Audit

Information available indicates that thirteen contractors were irregularly awarded contracts at a combined contracts sum of Kshs. 419,847,395. However, documents in support of these contracts have not been provided for audit review. In the absence of these documents, it is not possible to confirm that the rates submitted were commensurate with quality and quantity of works awarded,

and that the awards of these contracts were done using a system that is fair, equitable, transparent, competitive and cost effective as required under Article 227 (1) of the Constitution.

The CEC Member for Finance & the Head of Supply Chain submitted:-

The procurement was above board and the documentation have been submitted for review.

Committee Observations

Failure to submit documents as requested by the Auditor General on time is a not only a breach of Article 227 of the Constitution but implies a scheme to conceal misappropriation of funds.

Committee Recommendations

- i) The CEC Member for Finance should take disciplinary action against the Head of Supply chain at the time of audit for failing to act on the request of the Auditor General and thus breaching the law.**
- ii) The Head of Supply Chain should institute measures to ensure that the Procurement Department always acts in time when dealing with the Auditor General.**

4.13.2. Construction of Maringo Market

Tender No. NCC/TRADE/RT/981/2014-2015 was issued to a contractor on 28th October 2015 to construct a market at Hamza-Maringo Ward at a contract sum of Kshs. 10,502,872. The works were completed by 6 September 2016. Further, the same contractor was awarded another tender No. NCC/WDF/TRADE/RT/100/2016-2017 to construct market shades and modern kiosks at a contract sum of Kshs. 17,017,118. Although the construction of market shades is claimed to have been completed on 17 October 2017, incompleteness of contract documents that did not include scope of works and priced bills of Quantities made it impossible to evaluate and confirm that works were indeed completed. The contractor was paid Kshs. 10,236,414 through payment voucher number 3392 dated 21 March 2017 and Kshs. 16,585,798 through payment voucher number 3333 dated 20 November 2017. Audit inspection undertaken on 20 November 2018 revealed that the market was not in use, and therefore, the value for money has not been obtained in respect of the total amount of Kshs. 26,822,212 paid to the contractor.

The Chief Officer Roads and Public Works submitted:-

- (i) The market is complete and has been handed over to the County.**

(ii) The market is not in use due to security issue in the area, but the County is constructing a perimeter wall round the market and will deploy security personnel once the perimeter wall is completed.

(iii) Relevant contract documents, certificates and bills of quantities have provided together with the payment voucher.

Committee Observations

Failure to submit procurement documents as requested by the Auditor General on time is a not only a breach of Article 227 of the Constitution but could as well indicate a scheme to conceal irregularities.

Committee Recommendations

The Head of Supply Chain should institute measures to ensure that the Procurement Department always acts in time when dealing with the Auditor General.

4.13.3. Construction of Public Transport Facility at Mama Lucy Hospital

Award of Contract

Tender No. NCC/RT/RPW & T/936/2014-2015 was awarded to a contractor at Kshs. 30,530,388.

Objective of the Project

To enhance user comfort, improved connectivity and enhance public transport facilities capacity for patients attending the hospital.

Scope of Works

The Scope of works involved site clearance, excavation and fill, drain construction, wearing course.

Payments

The Company was paid Kshs. 8,738,541 for Certificate No. 1. Vide payment voucher No. 13281 of 17 June 2016.

Contract Period and Progress of Work

The works commenced on 28 October 2015 and were due to be completed on 28 April 2016, duration of six months. The status report dated 30 June 2018 show that the progress of works stood at 75 percent complete.

Audit Inspection

Audit Inspection undertaken on 14th November 2018 revealed various anomalies as follows:

(a) The contract period had expired while the project was not complete and liquidated damages had not been recovered.

(b) The contractor was not on site and there was no activity on site.

- (c) Specifications were not clear on the material to be used as wearing course.
- (d) There was no record of site instructions, material test results and site meeting minutes.
- (e) In the absence of required documents, it was not possible to verify and establish what the contractor was supposed to achieve and what was actually achieved.

The Chief Officer Roads and Public Works and Head of Supply Chain submitted:-

- i) It is true that the contract was to expire on 28 April 2016. However, the contract completion date was extended with a new completion date.
- ii) Further, while contractor was not on site during audit visit, it is worth noting that at the time of the audit visit, the project had been substantially completed and was only awaiting final inspection report.
- iii) The materials used for the construction work were tested, Laboratory Test Report issued, and various sited instructions were issued during the project implementation period.

Committee Observations

Failure to meet contract expectations by contractor, which include timelines, leads to the County Government not receiving value for money.

Committee Recommendations

- i) **The County Government should always conduct due diligence before awarding contracts and all contractors who underperform must be blacklisted.**
- ii) **Accounting Officers should ensure that all projects are completed and handed over within the contractual timelines and that contractors fulfil their obligations**

4.13.4.Grading and Gravelling of Selected Roads in Lower Savannah Ward

Award of Contract

Tender number NCC/WDF/RPWT/198/2016-17for grading and gravelling of 1.1 Kilometers of selected roads in Lower Savanna was awarded to a contractor at Kshs. 16,939,662.50.

Objective of the Project

To grade and gravel selected roads whose total length is 1.1 Kilometers.

Scope of Works

The Scope of works involved general site clearance, earth works, culverts and drainage works, passage of traffic and quarry fill stone for sub base and quarry chips for the base of the 1.1 Kilometer in the area of Soweto in Kayole.

Payments

The contractor was paid Kshs. 11,372,623 for undisclosed certificate vide payment voucher number 5153 of 19 June 2018.

Contract Period and Progress of Work

The works started on 28 February 2017 and were due to be completed in May 2017. However, status report as at 30 June 2018 has not provided to support progress of works or to confirm that the works were completed on time.

Audit Inspection

Audit Inspection undertaken on 10 December 2018 revealed various anomalies as follows:

- a) Gravel was not compacted and therefore was loose, unlevelled and wearing off.
- b) The drainage was on one side of the road and was shallow, and therefore storm water over flows on the road surface.
- c) There were no site instructions, material test results and site meeting minutes. The works therefore appear not to have been supervised by competent and technically qualified officer contrary to Section 150 (3) of Public Procurement and Asset Disposal Act, 2015.
- d) Bids were not subjected to technical evaluation and therefore, it is not possible to ascertain that the rate of Kshs. 16,939,662 charged was commensurate with grading and gravelling of 1.1 Kilometers.
- e) The contract period had expired and there was no evidence that liquidated damages had been recovered as expected under Section 140(b) Public Procurement and Asset Disposal Act, 2015.

The Chief Officer Roads & Public Works submitted:-

- i) The kind of gravel used is quarry chips (blue stones from Njiru quarry). While every effort was made to compact the quarry chips, it should be noted that it has no bonding properties but offer a longer design life than normal gravel (Murram). It also does not become muddy when wet and emits less dust when dry. The determining factor was the level of the outfall drain the drain and the drain invert could not go below the outfall drain invert.
- ii) The contractor will be instructed to do stone pitching on the road side to prevent water from overtopping drain
- iii) The contractor was instructed to compact the surface again to achieve a better riding surface.

- iv) Technical team evaluation report had not been done by the time of the audit as only one certificate had been paid and contractor has not been issued with certificate of substantial completion for the project.
- v) The tender opening register, Technical and financial evaluation report, Notification to successful bidders, Letter of Acceptance, Contract document containing Priced Bill of Quantities were provided to auditors for review
- vi) While the contract had expired, the payments had not been done though liquidation damages had been factored in the payment.

Committee Observations

- i) **Failure to meet contract expectations by contractors, which include timelines, leads to the County Government not receiving value for money.**
- ii) **Committee site visit findings revealed that while the contractor was on site, the project was behind schedule.**

Committee Recommendations

- iii) **The County Government should always conduct due diligence before awarding contracts and all contractors who underperform must be blacklisted.**
- iv) **Accounting Officers should ensure that all projects are completed and handed over within the contractual timelines and that contractors fulfil their obligations.**

4.13.5.Grading, Gravelling and Improvement of Tassia Roads.

Award of Contract

Tender number NCC/RPW & T/T192/2016-2017 was awarded to a contractor at Kshs. 61,230,658 to grade and gravel selected roads in Tassia Estate, Embakasi Area at a unit rate of Kshs. 10,500,000 per Km. Documents relating to the contract have however not been provided for audit review. In the absence of required documents, it is not possible to ascertain how the contractor was identified, evaluated and awarded the contract as required under Sections 85 and 86(I) of Public Procurement and Asset Disposal Act ,2015.

Payments

Status report dated 30 June 2018 show that the contractor has been paid Kshs. 49,356,480. The amount includes Kshs. 10,212,516 that has been paid outside IFMIS and purports to refer to unexplained number AQ007/PI-050/2017-2024.

Contract Period and Progress of Work

The works started on 10th March, 2017 and were due for completion on 9 November, 2017. However, a review of the status report dated June 2018 revealed that the project was 70% complete as of that date. There is no documentary evidence that liquidated damages has been recovered from the contractor as expected under Section 140(b) of the Public Procurement and Asset Disposal Act, 2015.

Audit Inspection

Audit inspection undertaken on 19 November 2018 revealed massive irregularities as follows:

- (a) Deep potholes clogged with water had developed on the road despite the fact that the contractor was still on site.
- (b) No evidence that grading was done on the road.
- (c) The road was impassable due to use of mud instead of gravel.

The Chief Officer, Roads & Public Works submitted:-

- i) The road works, done using gravel, were undertaken sometimes back in an area where there was no drainage system and thus with time rains affects the quality of work done.
- ii) The Technical team has availed site instructions, material test and site results meeting minutes.
- iii) Tender documents have been availed for verification by auditors.
- iv) The Sector shared with the auditors IFMIS Ledger Report and Internet Banking Payments Report to prove that indeed the payment of Kshs. 10,212,516 was not done outside the IFMIS system.

Committee Observations

- i) **Failure to meet contract expectations by contractors, which include timelines, leads to the County Government not receiving value for money.**
- ii) **Committee site visit findings revealed that the project was way behind schedule and the works were substandard.**

Committee Recommendations

- i) **The County Government should always conduct due diligence before awarding contracts and all contractors who underperform must be blacklisted.**
- ii) **Accounting Officers should ensure that all projects are completed and handed over within the contractual timelines and that contractors fulfil their obligations.**

4.13.6.Wastage of Bitumen KI-60 COLAS

Audit inspection of stores undertaken on 16 November 2018 revealed that a contractor delivered 500 drums of Bitumen KI-60 valued at Kshs. 12,500,000 between 17 and 25 January 2018 at a time when 18 drums valued at Kshs. 450,000 were available in stock and had not been used. Although it has been explained that technically KI-60 is not supposed to be stocked for a period exceeding six months, no reasons have been given for incurring an expenditure totaling Kshs. 12,950,000 on Bitumen KI-60 that ended up being obsolete.

The Chief Officer Roads & Public Works submitted:-

- i) There were no colas procured under tender No. NCC/RT/040/2017/2018) that were rendered obsolete. Details on consumption of the 500 drums indicating roads repaired using the material were availed for audit. Indeed the asphalt plant was eventually repaired and the entire consignment of 500 drums utilized in repair of roads within the County.
- ii) The store had manually coded Stores Ledger Cards that have now been serialized.
- iii) The 227 drums of Colas declared obsolete were procured in the year 2012 under defunct City County of Nairobi and went stale following breakdown of asphalt plant that took over two years to repair.

Committee Observations

The Committee was not convinced with the Chief Officer's response and held the view that the fact that materials worth millions were lost due to negligence of county officers.

Committee Recommendations

- **That the County Secretary takes disciplinary action against officers who caused the loss of Bitumen KI-60 COLAS during the period under review.**
- **The Chief Officer, Roads and Public Works puts in mechanisms that ensures that all procured construction materials does not go to wastage.**

4.13.7. Purchase of Electrical Items

Information available indicate that the Nairobi County Government awarded tender No. NCC/FW/481/2017-2018 to a contractor for supply of 2,000 pieces of electrical items (Ignitors) at a contract sum of Kshs. 9,200,000. However, the relevant tender documents have not been provided for audit review. In the absence of the documents, it is not possible to confirm that procurement of these items complied with Article 227 (1) of the Constitution. The supplier was paid Kshs. 9,200,000 for the supply of ignitors vide payment voucher number 5310 of 11 June 2018.

Audit further revealed that receipts of the items were entered on a piece of paper and not in a serialized stores ledger and Stock Control Card S3, and thus defeating an audit trail to confirm whether the items were delivered, received and taken on charge.

Submissions by the Chief Officer, Roads & Public Works

- i) Tender documents including approved authority to incur expenditure, requisition raised, Advertisement in Local dailies, tender opening, evaluation and awarding minutes and notification of award have been provided for review. Also provided are the LPO, Delivery Note, Invoice and inspection certificate and payment voucher.
- ii) Details for goods received in the Electrical Store are entered into Stores Ledger Cards that are coded per item. The Divisional Engineers fill and forward Pre-Printed Request Forms to Store Keeper to be issued with electrical materials. The stores officers' record issued materials in their respective Store Issuance Register and update Stores Ledger Cards.
- iii) Serialized Store Ledger cards, requisition forms, Store Issuance Registers and request to forward documents to investigators has been availed to auditors.

Committee Observations

- i) **There is poor internal controls especially at the stores demonstrated by failure to use official stores receipt vouchers and cards to account for the items purchased.**
- ii) **Committee site visit findings revealed that there was a controversy and discrepancy on when the items were actually received such that the delivery note by the supplier, who was present, showed that the items were delivered on 23rd February, 2018 while the store card show they were delivered on 21st February, 2019. In addition, it was not clear on which type/model of the igniters were procured.**
- iii) **The City continue being engulfed in darkness due to negligence, incompetence and corrupt nature of officers who collude with suppliers.**

Committee Recommendations

- **That the County Secretary takes disciplinary action against officers at the Highways Store whose actions of omission/commission during the period under review might have led to loss of the queried materials.**

- **The Chief Officer, Roads and Public Works and head of procurement should forthwith put in place internal control measures at the Highway store and all other stores to avoid pilferage and loss of valuable materials.**

4.13.8. Supply and Delivery Installation Testing and Commissioning of 50 Ton Electronic Weighbridge and Standby Generator.

Award of contract

Contract records show that a contractor was awarded a tender No. NCC/TRADE/558/2014-2015 a contract sum was Kshs. 4,526,275 for supply, delivery, installation, testing and commissioning of 50-ton electronic weighbridge and a standby Generator at Dandora dumpsite. Included in the contract agreement was a provision that installation of the generator and weighbridge was subject to the County Government constructing a platform.

Inspection and Acceptance

Inspection and Acceptance Committee confirmed on 21 March 2017 that the generator and fourteen parts of weighbridge were received and therefore recommended payments to the contractor as follow:

% of Payment	Amount (Kshs)	Recommendation
80% of Payment	3,621,020	Be paid immediately
15% of Payment	678,941	Be paid upon installation, testing & commissioning
5% of payment	226,314	Retention Money

Audit Inspection

Audit inspection undertaken during the Month of October 2018 at Dandora Weigh Bridge and on 13 November 2018 at Nanyuki Road stores revealed the following anomalies:

- a) The old weighbridge which was still in use was unserviceable and solid waste management companies were using estimated and not actual weights.
- b) A Physical inspection of the weighbridge revealed that some parts were missing.

The Chief Officer, Environment & Natural Resources submitted:-

- i) All parts of the weighbridge and the generator are intact and in safe custody. The Landing Frame and its accessories are all in Nanyuki Road Depot while the light parts including the computer components are all in Kaloleni Road Depot.

- ii) The installation of the weighbridge has been delayed by the construction of ramp for the equipment. The first advertisement for the service failed to attract any response. We have once again advertised now in local newspaper and in Public Procurement Information portal
- iii) We have provided copies of the two advertisements on construction of the ramp for the equipment
- iv) Whenever breakdown of the weighbridge occurs for various reasons, efforts are always made to bring it back to operation within the shortest time period as evidenced by the sets of documents shared with the auditors that were addressing a recent breakdown

Committee Observations

- i) The fact that public funds were used to purchase the weighbridge yet it was not in use one year after purchase demonstrates the ineptitude of the County Government especially the responsible officers in the procurement and environment departments.
- ii) Committee site visit at the Dumpsite confirmed the Auditor General's findings and revealed that the weighbridge in use had broken down and the staff were using estimates to determine the weight of garbage brought at the dumpsite by contracted garbage collectors thus an avenue for loss of funds.

Committee Recommendations

- i) The County Secretary should take disciplinary action against responsible officers for negligence of duty.
- ii) The Chief Officer, Environment and the Head of Procurement should immediately ensure that the weighbridge is installed to forestall any falsification of data at the weighbridge as a way of siphoning public money.
- iii) The County Government should put in mechanisms to shift from the whole concept of dumping of waste at Dandora dumpsite as a mode of waste management and embrace modern ways of waste management including recycling.

4.13.9. Staff Medical Insurance Cover

Payment for the Cover

Examination of records revealed that AAR Insurance Kenya Limited was paid Kshs. 1,725,488,939 for staff medical insurance cover during the year under review. Audit has also revealed that this

payment was made outside IFMIS contrary to regulation 109(1) of Public Finance Management (County Governments) Regulations, 2015.

Payment of Legal Fee

Further, examination of Other Operating Expenses revealed that an undisclosed law firm was paid Kshs. 15,000,000 through voucher number 15649 dated 29 June 2018 for the services purportedly rendered in respect of the staff medical insurance cover.

Excess Payments

Although the total payment made so far to AAR Insurance Kenya Limited is Kshs. 1,725,488,939, no explanation has been given for paying Kshs. 652,786,602 in excess of the contract sum of Kshs. 1,072,702,337.

Growth in Contract Value

A comparison of the annual contract sum shows unexplained growth in value of the insurance cover even though there was decrease in number of staff by 402 during the year under review.

Year	Number of Employees	Contract Value (Kshs)
2015-2016	13,348	346,269,305
2016-2017	13,097	346,269,305
2017-2018	12,695	1,072,702,337
2018-2019	12,499	

The Chief Officer, PSM submitted:-

- i) In the Financial Year 2017/18, the County spent Kshs 1,724,917,476 towards Medical Insurance for the staff a figure that doubled the actual expenditure in the Financial Year 2016/17 of Kshs.877, 240,895. The increase of 49% was attributed to inevitable extensions which were done with effect from 1st July to 30th September, 2017 at a cost of Kshs. 326,395,233 and a second extension with effect from 1st October to 31st December, 2017 at a cost of Kshs. 326,395,369 to enable a smooth transition period between outgoing and incoming Government.
- ii) The alleged overpayment Kshs. 652,786,602 relates to the two extensions covering 1st July to 30th September, 2017 and 1st October to 31st December, 2017 that were done before the tender was awarded and paid.

- iii) The contract for Kshs 1,072,123,010.00 covered twelve months (12) covering the period from 1st January 2018 to 31st December 2018. The sum of Kshs 1,724,917,476 therefore covered eighteen (18) months period as opposed to the normal twelve months.
- iv) The current cover was enhanced to cover principal member plus five other family members (M+5) unlike the previous cover, which covered a member plus three dependents (M+3); it also had a Group Life Cover included, which previously not covered.
- v) The medical cover rolled over to 31st December 2018 and in the financial year 2018-2019, the County has budgeted for medical insurance cost for the remaining six (6) months at approximate cost of Kshs 650,000,000 which will compare favorably with the previous period.
- vi) An analysis of the previous contracts between AAR Insurance and Nairobi City County vide contract No. NCC/HR/RT/977/2014-15 made on 30th July, 2015 for two years is as illustrated here below:-

S/No.	Contract Period	Amount in (Kshs)	No. of Employees
1.	FY 2015 to 2016	767,789,153	13,348
2.	FY 2016 to 2017	877,240,895	13,097
3.	1 st July 2017 to 30 th Sept. ,2017	326,395,233.00	13,097
4.	1 st October to 31 st Dec. 2017	326,395,369.00	13,097
5.	1 st January- to 31 st December, 2018	1,072,123,010.00	12,695

- vii) The County paid J. Harison Kinyanjui and Advocates a sum of Kshs. 13,577,586 (that is Kshs. 15,000,000 less 5% withholding tax and 6% VAT) through voucher number 15649 dated 29 June, 2018 being legal fee for successfully defending the County in Court Case No. HC PET 8/2018 that had challenged County Staff Insurance payments.
- viii) The documents relating to the case have since been forwarded to the auditors for review.

The Managing Director, AAR Insurance submitted:-

- i) AAR tendered for the medical insurance cover for the Nairobi City County for the periods in question through open tender.
- ii) The medical cover was premised on an expanded bracket of beneficiaries which included a family size of principal member, spouse and four children (M+5) and increase from the

previous medical covers of 2015/2016 & 2016/2017 periods which only provided coverage to principal member, spouse and two children (M+3)

- iii) Upward review of the Medical Benefits and the inclusion of Group Life Cover and Last Expense Benefits in the periods 2017/2018 and 2018/2019 was priced accordingly and hence an increase in the premiums charged.

Committee Observations

- i) **Failure to provide all relevant documents to the Auditor General during audit review implies that there was a scheme to conceal the truth regarding the tender for the medical insurance cover.**
- ii) **Provision of insurance attracts many interests due to the substantial amount involved thus a high-risk procurement area. In the current circumstance, it is difficult to ascertain whether the County received value for money now that documents were not availed to the Auditors on, time and part of the payments were effected outside IFMIS.**

Committee Recommendations

- i) **The Auditor General to conduct a special audit on the entire procurement process of the medical insurance cover for the period under review and the subsequent years for the Committee to take necessary action.**
- ii) **That the Chief Officer finance should ensure that all payments are effected through the IFMIS for accountability purposes.**
- iv) **The Chief Officer, PSM and the Head of Supply Chain to cooperate with the Auditor General and supply all the required documents relating to the procurement of the medical insurance cover.**

4.13.10. Construction of Korogocho Motorable Bridge and Access Road

The Nairobi County Government awarded a tender number NCC/CE/T/235/2013-2014 for Construction of Korogocho Motorable Bridge and access road to a contractor at Kshs. 58,048,972.

Scope of Works

The scope of works involved general, sub-structure, super structure, extra works, site clearance, earth works, culverts and drainage works, passage of traffic, walkways, quarry fill for sub base and quarry chips for base bituminous mix bases, binder courses and wearing courses, installing road furniture and day works.

Contract Period and Progress of Work

The works started on 23rd May, 2014 and were due for completion on 22nd November 2014. The status report dated 30th June 2018 show that the contractor had been paid Kshs. 45,361,835 or 77% of contract sum and the project was 80% complete as of that date.

Audit Inspection

Audit Inspection undertaken on 29 November 2018 revealed anomalies as follows:

- (i) There was no activity on site due to delay in payment.
- (ii) Although there were indications that guardrails might have been installed and cut, the bridge was dangerous and unsafe.
- (iii) The access road had not been built.
- (iv) Although bridge wing walls had been built, they were small and could not direct water into the channel.
- (v) The technical team did not provide drawings, site instructions, material test results and site meeting minutes.

The Chief Officer, Roads & Public Works submitted:-

- i) Due to the slow pace of project implementation, the contractor was issued with a letter of termination of the contract.
- ii) The main bridge structure was completed as per the contract agreement. The guardrails had however been vandalized at the time of audit making the bridge appear incomplete. This is evidenced in photograph availed to auditors.
- iii) The access road had been constructed up to the laying of the base, drainage works, laying and jointing of kerbs & channels. However, a contractor for the sewer works excavated the entire road surface. This has not re-instated the road to its original condition as is the requirement despite having communicated to Nairobi City Water and & sewerage Company.
- iv) The size of the wings was subject to availability of road reserve. In this case, nine meters were available. Stone pitching will however be done to direct the flow of water. It is worth noting that the flow has been smooth during the rainy seasons.
- v) We have provided site instructions, material testing and site meeting minutes.

Committee Observations

- i) **Failure to meet contractual expectations by contractors, which include timelines, leads to the County Government not receiving value for money.**

- ii) Due to lack of integrated planning, the County will incur additional costs to repair sections of the road and bridge that had already destroyed by the contractor for the sewer works.

Committee Recommendations

- The County Government should always conduct due diligence before awarding contracts and all contractors who underperform must be blacklisted.
- The County Government should undertake integrated planning and development to avoid overlapping works and hence additional costs to the taxpayer.
- Accounting Officers should ensure that all projects are completed and handed over within the contractual timelines and that contractors fulfil their obligations.

4.14. Beautification of Nairobi

Examination of vote book for Environment, Water, Energy and Natural Resources Sector revealed expenditure totaling Kshs. 18,750,000 on casual payments during the financial year 2017/18. However, details of the expenditure and supporting documents have not been provided for audit review. Examination of records further revealed that payment vouchers for expenditure totaling Kshs. 640,000 were processed in respect of surrender of imprests for the beautification Programme as follows:

PV number	Warrant Number	Amount (Kshs.)
7651	3263651	100,000
5824	3263854	100,000
4715	IB A180872345691180	440,000
Total		640,000

An audit inspection undertaken on 16 November 2018 revealed that beautification of the Nairobi City County roads was going on at Jogoo Road, Lusaka Road, Uhuru Highway and Likoni Road Roundabout. Indications are that no specialists/consultants in landscaping have been engaged to provide assurance on the success of the project.

It has been observed that undetermined huge expenditure is being incurred on purchase of materials such as cement, seedlings, PVC pipes, cedar poles, galvanized wire, barbed wire, red soil, manure,

ballast, paints, flowers and grass for the purposes of beautification of the above roads. However, the management has not provided any record to show the cost of these goods and services, and the method of procurement used.

The Chief Officer, Environment & Natural Resources submitted:-

- i) Over the entire period in question, the Environment, Water, Energy and Natural Resources sector neither has entered into any contract nor spent any money on procurement of grass, flowers, palm trees and any other plant species for beautification purposes in the City.
- ii) The expenditure of Kshs. 18,750,000.00 as shown in the Environment, Water, Energy and Natural Resources Sector Vote Book for payment of casual was payment of subsistence allowances using temporal wages vote that was corrected by attached journal entries. This expenditure includes Kshs 640.000 deployed for recurrent purposes in the Environment, Water, Energy and Natural Resources programmes.

Committee Observations

- i) **The city beautification program was poorly planned and executed which explains its failure. From the explanation by the relevant Chief Officer, it is even not clear where the funds for the program were sourced. Further, the following breaches can be noted:-**
 - **Use of imprests to incur expenditure instead of competitive bidding.**
 - **Specialists/consultants in landscaping were not engaged to provide assurance on the success of the project.**
- ii) **Failure to provide documents to the Auditor General implies that the responsible officers intended to conceal impropriety of public funds.**

Committee Recommendations

- **The Ethics and Anti-Corruption Commission (EACC) is invited to investigate the city beautification program during the period under review that was conceived and implemented in unclear circumstances. The contractors and officers involved should be investigated to clarify how they implemented the program and if there was any impropriety they be held to account.**

- **That in future, all development programs must be budgeted for and all records relating to the program availed on time to the Auditor General for review.**

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

Examination of records for Water, Energy, Environment, Forestry and Natural Resources Sectors revealed payments totaling Kshs. 202,996,053 were made to eleven contracted firms for collection and disposal of solid waste at Dandora dumpsite.

Records further show that some firms opted to collect 84,317 tons of garbage from areas that they were not prequalified and contracted to collect garbage and were paid Kshs. 162,092,407. Although it has been explained that the firms opted to collect garbage from some zones due to high rates of payment, the option taken contravened their individual contracts resulting in denial of service to other zones.

The Chief Officer, Environment submitted:-

- i) Collection, Transportation and Disposal of Solid Waste in the City and the resultant payments were and continue being done with all due authority and strictly within the provisions of the Contracts.
- ii) With regard to apparent operation by Contractors in unauthorized zones, in deed, authority is always duly granted by the Director of Environment as and when needed, as provided for in the Contract Document clauses highlighted below. The supervisors of a given Operation Zone, upon noticing unusual accumulation of wastes that the Contractor of that given area is temporarily unable to handle, requests the Director Environment, through a standardized Machine Operations Request Form to consider assigning one or more of the performing Contractors to temporarily set aside some of his/her/their collection capacities to operate in the affected area. The Director upon due consideration, may proceed to issue authority to one or more of the other Contractors to moves into the affected area and work for a specified period of time or up to the time that the waste accumulation observed is removed.
- iii) In such cases, the affected Contractors are paid at the rates at which they were awarded their respective contracts.
- iv) Clause IV. 16 and Clause IV.33 (ii) & (iii) of the Contract provides as follows:

“The Director of Environment or duly authorized representative shall be at liberty to call upon the Contractor to urgently attend to any emergency or unforeseen occurrence, Clause III.6, on Special

Conditions notwithstanding, The scheduling of the machine operations will be at the discretion of the Director of Environment”.

Committee Observations

- i) While the garbage collection contracts allow collection of garbage by contractors in non-contracted zones under special circumstances as alluded to by the Chief Officer, the Committee held the view that it was not normal that a majority of the firms were allowed to operate under this provision. The Chief Officer could not demonstrate to the Committee the special conditions during the year under review that necessitated the invoking of this provision. In addition, the Chief Officer failed to provide complete copies of the garbage collection contracts to the Committee for review as requested.
- ii) There was a likelihood that the firms colluded with County Government Officials in order to benefit from the loopholes of the contract by collecting garbage in non-contracted zones, which attract higher pay in order to siphon county funds.

Committee recommendations

- i) The Chief Officer, Environment should ensure that garbage collection contractors adhere to the terms and conditions of the contracts and that they are paid in accordance to the terms and conditions in their contracts. In the event of invoking special conditions, the same should be done in writing and the reasons for such action should be included. The appointing authority should sanction any officer who fails to adhere to this.
- ii) The CEC Member for Finance to ensure that firms, which irregularly benefited from the irregular contract variation during the period under review are surcharged and the same to be reported during the next audit cycle by the Auditor General.

4.16. Stalled Projects

Contracts for eight projects whose combined contract sum is Kshs. 592,852,611 as detailed below were awarded, some works undertaken, and some payments made, however, the projects were abandoned before they were completed:

Project	Firm Awarded	Contract Amount
Construction of perimeter wall at Mji wa Huruma	Cykka Works Ltd	16,884,600

Construction of seventeen ECDE-(various)	Desiral (K) Ltd	218,898,310
Rehabilitation of Gaturu road and access roads to courts in Buruburu estate	Semilikiy Construction Ltd	6,629,980
Construction of access roads off Kayole spine road to department of defence	Gold Stream Kenya Ltd	63,662,864
Rehabilitation of St.Martin Catholic Church road in Mathare	Platinum Construction Co. Ltd	43,211,595
Rehabilitation of Ndwaru road in Dagorreti South	Gem CM Construction Ltd	98,811,395
Rehabilitation of Mother Teresa road in Ruaraka	Alsen Agencies	31,495,827
Construction of Karen bridge in Langa'ta	Ballot JA Contractors Ltd	113,258,040
TOTAL		592,852,611

The CEC Member for Finance

- i) The total contract sum for construction of Mji wa Huruma perimeter wall was awarded to Cykka Works Limited at a contract sum of Kshs. 16,000,000.00. The contractor, who has abandoned the site, issued the first certificate of Kshs. 4,870,690.00 on 7th December 2015, which has not yet been paid. Copy of the contract documents have been forwarded for audit review
- ii) The contraction of 17No. Early Childhood Education Centre (ECDE) was awarded to Desiral Kenya Limited at contract sum Kshs. 218,818,310.40. The contractor abandoned the site without any communication to the County Government and effort by the County Government to know why he abandoned the site was not responded to.
- iii) It is true that the road projects had stalled due to non-payment of contractors. However, the County Government evaluated the contracts and paid the contractors who had maintained quality contractual obligation. The contractor who had been paid have since resumed work. The status reports on the above payments have been availed for audit. However, the Ndwaru Road was awarded to Jelink Ltd NCC/RPWT/108/2015-16-W not as indicated in the audit report as Gem CM which was awarded Hacco industries Road (NCC/RPWT/123/2015-2016).

Committee Observations

- i) **There is general poor planning and execution of development projects by responsible County Government Departments including delayed payments leading to contractors abandoning the sites.**

- ii) **The County Government does not perform due diligence on companies before awarding contracts leading to engaging companies without capacity to deliver. In fact, some companies only surfaced at the sites when they heard that the Committee would conduct site visits.**

Committee Recommendations

- i) **That before engaging a service provider especially contractors for capital projects, the County Executive must at all times undertake due diligence and determine whether the service provider has the requisite financial capacity, technical expertise and demonstrated experience to perform the work. In future, the CEC Member for Finance and Economic Planning should hold liable officers who award tenders to incapacitated companies.**
- ii) **That the CEC Member for Finance and Economic Planning should establish project management teams in Sectors whose mandate should include conceptualization of viable projects with definite completion timelines and adhere to the tenets of project management.**
- iii) **That all abandoned projects as observed by the Auditor General and confirmed by the Chief Officers should be retendered and works awarded to competent firms so that the residents can realise the intended benefits.**

4.17. Health Facilities

4.17.1. Human Resource Management

a) Mama Lucy Kibaki Hospital

Section 63(1) of County Government Act, 2012 authorizes County Public Service Board to make appointments including promotions in respect of officers in the county public offices. Mama Lucy Kibaki 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. Instead of filling the gaps, the County opted to engage 94 casuals whose expenditure during the year under review was Kshs. 10,275,878.

The Chief Officer, Health Services submitted:-

- i) **The hiring of casuals was justified and was not irregularly done as it had the approval of the hospital's Health Management Board as per the Facility Improvement Fund (FIF) guidelines.**
- ii) **The supporting documents were provided.**

Committee Observations

- i) There was violation of Section 63(1) of County Government Act, 2012 that authorizes the County Public Service Board as the only body mandated to make appointments including promotions in respect of officers in the county public offices.
- ii) Lack of skilled staff, employed on permanent terms, at such a critical health facility compromises service delivery.
- iii) Over-reliance on casual employees is expensive in the end and pose a risk both the hospital's property and the patients since they lack the sense of accountability.

Committee recommendations

- The CPSB should be the only recruiting entity in the County Government irrespective of the terms of service as provided for in Section 63(1) of County Government Act, 2012.
- The CPSB should ensure that all hospitals endeavour to employ skilled officers on permanent terms given the critical services they offer.
- Casual labourers should only be engaged for non-core functions/services such as cleaning to reduce the risk they pose to the institution.
- Employment in any County Government entity should be as per the entity's approved staff establishment

b) Dandora Health Centre

Similarly, Dandora Health Centre has forty-seven staff instead of one hundred and seven authorized in the establishment, resulting in shortage of sixty staff.

The Chief Officer, Health Services submitted:-

- i) The establishment referred to in the audit report is in terms of numbers that management of the facility thought should be ideal for efficient operations but not as per the authorized structure of the County.

- ii) Approved staff establishment are prepared at the County Health management team level which has lobbied for the need to employ more personnel and in fact vacancies were advertised and shortlisting for interviews have been done by the County Public Service board.

Committee Observations

Lack of enough skilled staff at the health centre compromises service delivery.

Committee Recommendations

The County Government through the CPSB should ensure that the Health Centre is well staffed as per the approved staff establishment.

4.17.2. Budgeting and Financing of Health Facilities in Financial Year 2017/2018

a) Undisbursed Funds

Health facilities are required to draw and submit annual work plans (AWPs) to the County Headquarters for preparation of annual budget. The records indicate that the health facilities were expected to receive Kshs. 107,252,922 during the financial year 2017/2018. However, the audit has revealed that the money was not disbursed to the health facilities. In addition, no reason has been given for failure to prepare annual work plans (AWPs) by some health facilities.

The Chief Officer, Health Services submitted:-

- i) The County disbursed two tranches of Kshs. 58,162,149 and Kshs. 25,818,750 in September 2018 and January 2019 respectively to all County health Centre's and Dispensaries being funding from DANIDA in support of Universal Health Care Services.
- ii) A further funding from the County Treasury of Kshs. 20,000,000 was disbursed to facilities in the same year under review.
- iii) The County received and disbursed Kshs. 25,818,750 on 1st April 2019 being the last tranche of DANIDA funding for the FY 2018/2019.
- iv) Provided are various copies of disbursement schedules, exchequer releases, bank statements extracts, approved requisitions memos and requests for Local Purchase Orders (RLPOS) to support our response.

Committee Observations

Failure to disburse funds to the Health facilities translates to lack or poor service delivery hence putting at risk the health of the residents.

Committee Recommendations

The County Treasury should be disburse funds to the health centres as per the budgeted.

b) Comparison of Budget and Actual Amounts

Records further show that an amount of Kshs. 1,591,905,004 was budgeted for TB control, malaria control, family planning, maternal and child health, environmental health, County referral hospitals, health centers and dispensaries, health policy, planning and financing, health commodities, research and coroner services. However, an amount of Kshs. 347,150,717 only was utilized resulting in unexplained under expenditure of Kshs. 1,244,754,287.

The Chief Officer, Health Services submitted:-

- i) The under expenditure noted by the auditors of Kshs. 1,244,754,287 was because of underfunding of budget due to low revenue collection.
- ii) There were also lengthy procurement process requirements, which resulted in late preparation of payment vouchers that could not be paid by the end of the financial year.
- iii) The amount has been duly appropriated in the FY 2018/2019 County Budget.

Committee Observations

Under expenditure due to the reasons explained by the Chief Officer translates to lack or poor service delivery hence putting at risk the health of the residents.

Committee Recommendations

- i) **The County Treasury should enhance revenue collection and prioritize disbursement of funds to health centres.**
- ii) **The Head of Supply Chain and all accounting officers should plan the procurement process in order to ensure that all budgeted activities are implemented.**

4.17.3.Failure to Supply Drugs and Non-Pharmaceutical Items to the Health Facilities

Sub County pharmacists and health facilities are required to place their orders for drugs and other non-pharm items, which are supplied by KEMSA online after receiving instructions from the County Headquarters on availability of funds. Analysis of various health facilities orders for pharm (drugs) and non-pharm items between the month of September and December 2017 revealed that no drugs and non-pharmaceutical items were received by the facilities.

The Chief Officer, Health Services submitted:-

- i) The observed stock out of most essential medicines and medical supplies in the facility has been occasioned by several challenges. The last supply to all the County facilities was made in August 2018. Prior to this, the facilities in the County had experienced a prolonged period of non-supply, with the last supply having been in February 2016.

- ii) The delay and erratic supply of essential medicines and medical supplies is mainly due to the outstanding debt to KEMSA. KEMSA is the main source of health commodities for the County given their wide range, quality assurance, fair pricing and willingness to extend commodities to the County on credit. However, delays in payment for supplies means that though orders are raised at the facilities on a quarterly basis, processing at KEMSA does not take place, hence the observed stock outs. Currently, the County owes KEMSA about Kshs. 285M.
- iii) The County executive and the KEMSA management have held several meetings to agree on a payment schedule. Orders from all the County facilities are ready and have been consolidated, awaiting submission to KEMSA as soon as authority from the County executive is given.

Committee Observations

Failure to stock health facilities with medical supplies due to inefficiencies and bureaucracies in the County Government exposes the residents to undue suffering.

Committee Recommendations

- i) **The CEC Member for Health Services should take personal interest in this matter and ensure that all bureaucracies affecting supply of drugs to health centres are eliminated. In addition, the CEC Member should engage the CEC Member for Finance and ensure that debts owed to KEMSA are settled.**
- ii) **The CEC Member for Health Services, the Chief Officer for Health and Hospital Heads should ensure that health facilities are at all times stocked with Drugs and Non-Pharmaceutical.**

4.17.4.Expired Drugs

Audit of health facilities in Nairobi City County revealed that the facilities have not received funding or supplies from KEMSA during the year under review, resulting in stocking of expired drugs whose value has not been determined due to failure to undertake stocktaking.

The Chief Officer, Health Services submitted:-

- i) The Annual Procurement Plan for the FY 2017-2018 had an approved allocation for procurement of medicines and medical supplies worth Kshs. 460M. During this same period, the outstanding debt at KEMSA was at Kshs. 285M. Quarterly orders were raised at the facility level and uploaded to the electronic order management system but could not be

further processed at KEMSA due to the outstanding debt. The last supply of medicines and medical supplies made to the facilities was actually in February 2016.

- ii) It is important to note that the bulk of the expired commodities are program items operated centrally under the national government. These include commodities for TB, Malaria, HIV management, etc. Part of the explanation for the expiry is due to the change in treatment guidelines resulting in use of new formulations other than those already at the facilities. The second explanation is the inconsistent disposal hence the accumulation in facilities over time. Part of the spoilage can also be explained by the extended doctor's strike in 2016. Many of the commodities that were meant to be comfortably absorbed during that time well before expiry ended up being "slow-movers" hence the expiry.
- iii) The Annual Procurement Plan has an allocation every year for disposal of expired commodities. There have also been partners in the county willing to support disposal, namely University of Maryland and Afya Jijini. Though the official paperwork of completing F058s has been done, clearance for disposal at City hall has not happened. The County Director of Health is currently following up on the issue of clearance.
- iv) For the push of short-dated pharmaceuticals, as stated above, the main problem is with the program items for TB, Malaria and HIV. When monthly orders for the commodities are made and a supply of short-dated commodities is delivered, the programs do not allow partial acceptance of the consignment. The facilities therefore have no choice other than to accept the completely short-dated consignment, many a times in volumes well above what was ordered by the facility. Though regular redistribution within and outside the county is carried out, the biggest impediment is that the same batches with the short expiry are found in the other Counties as well. Away from program items, it is important to note also that KEMSA has a donation program for essential items with less than 6 months of expiry which are availed to all the Counties free of charge. Nairobi County is a major beneficiary of this arrangement.

Committee observations and findings

- i) **Procurement of drugs that are likely to expire in a short while leads to loss of public resources and in some instances if used exposes risks to patients in public hospitals.**
- ii) **The County Hospitals do not have a structured and predictable way of procuring drugs. The fact that they rely on the parent sector to supply the drugs through**

KEMSA rather than needs of the hospital, explains why they are oversupplied with almost expiring drugs.

iii) There is a general inefficiency in the County Hospitals, which explains why there is no frequent stocktaking of drugs leading to stocking of expired drugs.

Committee recommendations

- **The Chief Officer, Health Services should within three(3) months of adoption of this report develop a policy on how to procure and supply drugs to the County hospitals to eliminate ambiguities that lead to supply of unnecessary and expired drugs. The policy should demand that procurement of drugs should be initiated by the individual hospital based on its needs analysis.**
- **The Hospitals before accepting drugs from either KEMSA or any other agency/supplier must first determine that they are not likely to expire in a short-while.**
- **The Hospital Heads should ensure frequent stock taking in order to pre-empt drugs that are almost reaching their expiry dates.**

4.17.5.Failure to Issue Medical Certificates to Food Handlers

The audit revealed that Medical Certificate Unit has not been issuing medical certificates to food handlers due to lack of funds for the purchase of laboratory commodities, certificate books, tonners and stationery among others. Audit has further revealed that medical certification services have been outsourced to five laboratories. However, no documentary evidence has been provided to show how the laboratories were identified, evaluated and awarded certification services. In the absence of documentary evidence, it is not possible to confirm that rates charged by the laboratories are fair, equitable, transparent, competitive and cost effective as required under Article 227 (1) of the Constitution.

The Chief Officer, Health Services submitted:-

- i) **There was a backlog of food handlers who had paid for the services and had not been tested due to lack of testing reagents.**
- ii) **Given the need to ensure all food handlers are tested and their health status ascertained, the sector explored different avenues. In search of quality services, the County approached**

several laboratories including Kenyatta National Hospital with an understanding that they will help test the food handlers at a subsidized rate.

iii) Out of 25 laboratories that were approached, only a five were willing to get into the proposal. This however was terminated after the procurement process for commodities stabilized. The Outsourcing was reached because of the challenges identified above. The offer was reached to bring on board the following laboratories;

- Premier Laboratory
- Meditest Laboratory
- MP Shah Hospital
- Nairobi Hospital
- Corner House Laboratory

iv) The issue of procurement of testing services was untenable due to the cost of doing those tests in private laboratories vis-à-vis the money charged for the service to clients by the County. E.g., the cost of doing three tests i.e. Salmonella Antigen Test, Urinalysis, and Stool for over the counter at the Nairobi hospital which was one of the outsourced laboratories was two thousand five hundred at that time.

v) The outsourced laboratory services were charging the client at a rate of KES 750 and remitting KES 250 to the County.

vi) Currently, the food handler is charged KES 1,000 by the County Government that caters for the procurement of both Laboratory Commodities and Medical Certification books.

vii) The hiring of the labs was a stopgap measure occasioned by lack of internal capacity. The internal capacity has since been boosted and many of the tests are now being done within County facilities.

Committee Observations

i) **The County Government failed on its duties to protect the residents and visitors against diseases associated with food handling due to its inefficiencies.**

ii) **The inefficiencies of the County Government led to residents and businesspersons incurring unnecessary cost in private hospitals.**

Committee Recommendations

i) **The Chief Officer, Health Services should henceforth ensure that the service of issuing food-handling certificates to food handlers is never interrupted in order to guarantee the health of the residents.**

- ii) In the event of engaging private laborites for whatever reasons, the cost associated with that should be borne by the County Government and not the food handlers.
- iii) The Chief Officer Health Services should always submit to the Auditor General all the requested documents and information during audit period.

4.18. Confidential Expenditure

The Nairobi City County through the Office of the Governor and Deputy Governor incurred confidential expenditure of Kshs. 14,405,900 during the year under review. Attached to every payment voucher in support of the confidential expenditure was a memo COSEC/2/3/VOL.III/19/17 stating that, the security sector faces challenges from time to time and at times require urgent action in terms of information and intelligence hence, the confidential expenditure though no further explanation was provided. However, the law allows only a national government entity to incur confidential expenditure pursuant to regulation 101(5), (6) and (7) of the Public Finance Management (National Government) Regulations, 2015. The management was, therefore, in breach of the law.

The CEC Member for Finance submitted:-

- i) In the year 1996, the Director City Inspectorate vide City Inspectorate Committee meeting held on 20/2/1996, minute 16 page 1645 requested that he be granted a monthly Non Accountable imprest that would be used for sourcing information on investigation matters concerning issues of thefts, forgeries and fraud in the whole Council. The City Council through Finance Committee meeting held on 22/2/1996 approved the request vide minute 135/16 page 1768. Since then, this has been the practice, although with periodic review of the amount and broadening of the purpose.
- ii) The expenditure is used to cater for intelligence gathering, counter terrorism, and dealing with security related matters that are a threat to the peaceful co-existence of City communities.
- iii) The Nairobi County Assembly approves the budget, as a vote head under the Office of the Governor. The three sub sectors under the Office of the Governor that are allocated this vote are Investigation, Disaster Management and Security Compliance. The National Treasury has also allocated a code for this expenditure through IFMIS.

Committee Observations

The Committee was not convinced with the CEC Members' response and held the view that the expenditure was irregular as pointed out by the Auditor General. Particularly, the expenditure was in breach of regulation 101(5), (6) and (7) of the Public Finance Management (National Government) Regulations, 2015 which does not allow use of Confidential Expenditure. The regulation/authority relied upon as explained by the CEC Member is obsolete and has no force of law.

Committee Recommendations

- i) The CEC Member for Finance should reprimand and surcharge officers and persons who incurred the illegal confidential expenditure amounting to Kshs. 14,405,900.
- ii) The Chief Officer Finance and all other Accounting Officers across the County Government should only approve expenditure that is authorised by law and budgeted for.

CONCLUSION

The Committee having considered both the **“Report of the Auditor-General on the Financial Statements of Nairobi City County Executive for the year ended 30th June 2018”** and oral/written responses by witnesses it invited, has made various recommendations that require implementation by the CEC Member, Finance and Economic Planning, Accounting Officers and state agencies. The recommendations are aimed at deterring future misappropriation of public funds.

SUMMARY OF ALL RECOMMENDATIONS

Following the Committee's consideration of the **"Report of the Auditor-General on the Financial Statements of Nairobi City County Assembly for the year ended 30th June 2018"** and having considered responses from the Accounting Officer, the Committee urges the County Assembly to resolve as follows: -

1.1. Cash and Cash Equivalents

1.1.1. Unaccounted for Cash Withdrawals - Kshs. 209,385,752

- Accounting Officers must at all times provide complete financial records and corresponding payment records to the Auditor General within the stipulated period of three months after close of the Financial Year as provided for in Article 229(4) of the Constitution and Section 149(2)(k) of the Public Finance Management(PFM) Act, 2012.
- The CEC Member for Finance must within three months of adoption of this report put in place proper cash handling mechanisms in accordance with regulation 104(1) of Public Finance Management (County Governments), Regulations 2015.

1.1.2. Irregular Payment of Suppliers through Cash - Kshs. 381,841,224

- The CEC Member for Finance should ensure that all suppliers are paid through properly supported and pre-numbered payment vouchers, use of Cheques, Bank transfers and not cash.
- The appointing authority should take disciplinary action against the officers responsible for the irregular payments.

1.1.3. Overdrawn Accounts - Kshs. 3,794,555

- The CEC Member for Finance and Economic Planning should take personal interest in this matter of KCB bank loan and within three months of adoption of this report table a comprehensive paper before the County Assembly on how the loan shall be cleared to forestall further loss of public funds.
- The County Treasury should always seek that prior approval from the County Assembly before an overdraft is processed.

1.1.4. Un-disclosed Bank Account Balances - Kshs. 3,045,914,596

- Accounting Officers must at all times provide complete financial records to the Auditor General within the stipulated period of three months after close of the Financial Year as provided for

in Article 229(4) of the Constitution and Section 149(2)(k) of the Public Finance Management(PFM) Act, 2012.

- The County Treasury should always disclose all bank accounts in the financial statements.
- The Appointing Authority must within three months of adoption of this report reprimand responsible officers for laxity and incompetence

1.2. Revenue

1.2.1. Irregular Withdrawals from Revenue Account - Kshs. 6,022,896,123

- The Chief Officer, Finance should institute measures to ensure that the County Treasury always acts in time when dealing with the Auditor General to forestall audit queries.

1.2.2. Unexplained Cash Receipts – Kshs. 5,353,171,175

- The CEC Member for Finance should take personal interest in the management and running of the County Treasury and ensure that officers working at the treasury are fully capacitated to enable them perform optimally.
- The County Treasury should at all times keep proper financial records and submit the same to the Auditor General when requested during the audit period.

1.2.3. KRB Road Maintenance Levy Fund Receipts

- The CEC Member for Finance should take personal interest in the management and running of the County Treasury and ensure that officers working at the treasury are fully capacitated to enable them perform optimally.
- The County Treasury should at all times keep proper financial records and submit the same to the Auditor General when requested during the audit period.

1.2.4. County Own Generated Receipts

a) An unexplained difference of Kshs. 1,856,231,679.

- The County Government should put strong measures to improve on Own Generated Receipts.
- The CEC Member for Finance and Economic Planning should within three months of adoption of this report table before the County Assembly a comprehensive paper on the measures the County Government is taking to develop an internal automated revenue collection system.

b) M-Pesa pay bill numbers

- The County Government should put strong measures to improve on Own Generated Receipts.
- The CEC Member for Finance and Economic Planning should within three months of adoption of this report table before the County Assembly a comprehensive paper on the measures the County Government is taking to develop an internal automated revenue collection system.

c) Uncollected revenue totaling Kshs. 141,023,084.

- The County Government should put strong measures to improve on Own Generated Receipts.
- The County Government should account for all the receipts.

d) Social Halls at Kariobangi, Dandora Phases II, III and V.

The Chief Officer Finance and the Chief Officer, Social Services should put in place proper accounting mechanisms to ensure that all revenues collected from social hall is properly accounted for.

e) Uhuru Park Boating Services, Jukwa Lounge (Uhuru Park Restaurant) and Safari Bowling Green Restaurant at City Park

- That within three (3) months of adoption of this report, the Chief Officer, Finance and the Chief Officer responsible for parks should table a comprehensive sessional paper regarding management of County Parks.
- That expired leases for Jukwa Lounge (Uhuru Park Restaurant) should be reviewed for possible renewal.
- That given the status of City Park and the circumstances surrounding Safari Bowling Green Restaurant, the expired lease should not be renewed and the proprietor asked to vacate the premises forthwith.

f) Dagoretti Sub County Hospital.

- The CEC Member for Health must ensure that all hospitals are well resourced and stocked by medical supplies to avoid spending of revenue at source.
- That the Chief Officer, Health Services should ensure that funds collected at hospitals are banked and well accounted for.

g) Inoculation Center at City Hall.

- The Chief Officer, Health Services and the appointing authority should consider transferring officers who have been serving at the Inoculation Centre especially during the period under review and replace with more motivated officers in order to improve performance.
- Revenue collection at the Inoculation Centre should be automated.

1.2.5. Cancelled Receipts

- The CEC Member for Finance should put in place proper internal systems and control measures at the County Treasury to ensure proper accounting of public finances.
- The CEC Member for Finance should prioritize capacity building of Treasury Officers in order to avoid/minimize the recurrent errors committed in the financial accounting.

1.2.6. Stale Cheques

- The CEC Member for Finance and Economic Planning should implore upon the County Treasury to ensure that all Cheques received are banked on time.
- The Chief Officer, Finance should reprimand responsible officers during the period under review.

1.2.7. Property Rates Adjustments

- The CEC Member for Finance should institute measures to ensure that all Accounting Officers always acts in time when dealing with the Auditor General to forestall audit queries
- The County Government should explain and support all Property Rates Adjustments.

1.2.8. Unsupported Payments to Revenue Account - Kshs. 9,012,746

- The Chief Officer, Finance should reprimand responsible officers at the County Treasury for incompetence.

1.2.9. Irregular Payments to M/S Webtribe Ltd - Kshs. 152,055,313

- That due to the nature of the contract and transactions relating to Jambo pay revenue collection system, a multi-agency approach of EACC, DCI and DPP be initiated by the agencies and immediately commence investigations of all responsible officers within the County Government and Webtribe Ltd for possible loss of funds and those found culpable to be prosecuted.

1.2.10. Nairobi City Liquor Licensing Board

- The Accounting Officer should institute measures to ensure that the Nairobi Liquor Licensing and Control Board always acts in time when dealing with the Auditor General to forestall audit queries.

1.3. Expenditure

1.3.1. Discrepancy between Financial Statements and Ledgers

- The CEC Member for Finance should take personal interest in the operations of the County Treasury with a view of embedding strong internal control systems and adherence to the PFM Act, 2012 and other financial procedures and processes.
- The Chief Officer, Finance should reprimand responsible officers at the County Treasury for incompetence.

1.3.2. Repayment of Principal on Domestic Lending and on Lending

- The CEC Member for Finance and Economic Planning should take personal interest in this matter of KCB bank loan and within three months of adoption of this report table a comprehensive paper before the County Assembly on how the loan shall be cleared to forestall further loss of public funds.
- The County Treasury should always seek that prior approval from the County Assembly before an overdraft is processed.
- The County Government should reconcile and support expenditure on Repayment of Principal on Domestic Lending and on Lending.

1.3.3. Other Payments

- The County Government through the County Treasury must at all times meet its obligations including remitting of statutory deductions to relevant entities such as KRA.
- The Accounting Officer of the County Treasury must at all times provide complete financial statements/records and disclose all financial information to the Auditor General within the stipulated period of three months after close of the Financial Year as provided for in Article 229(4) of the Constitution, and Section 149(2) (k) of the Public Finance Management (PFM) Act, 2012.
- The Accounting Officer must at all times discharge his or her responsibilities in management of public finances as provided for in Section 68 of the Public Finance Management Act, 2012.

- The CEC Member for Finance and the respective Chief Officer for Finance must be held liable for the loss incurred due to their underperformance.

I.4. Acquisition of Assets

I.4.1. Unsupported Expenditure

- The DCI & EACC should conduct further investigations with respect to the queried assets to ascertain whether the said assets were actually acquired and there was value for money.

I.4.2. Payments not Captured in IFMIS

- The CEC Member, Finance should ensure that the County Treasury effects all payments through the IFMIS system.

I.5. Unsupported Payment Vouchers

- The Chief Officer, Finance should ensure that expenditures are processed based on the approved budget and various Accounting Officers must ascertain availability of funds before approval of any expenditures in order to avoid unnecessary pending bills.
- Payments should be made when all supporting documents have been received.
- The Committee recommends that the CEC Member for Finance should institute measures to ensure that all Accounting Officers always acts in time when dealing with the Auditor General to forestall audit queries.

I.6. Missing Payment Vouchers

- The Auditor General to report on the status of the audit query in the subsequent audit cycles.

I.7. Other Grants and Transfers

- The Committee recommends that the CEC Member for Finance should institute measures to ensure that all Accounting Officers always acts in time when dealing with the Auditor General to forestall audit queries.

I.8. Accounts Receivables

4.8.3 Debtors

- The County Treasury must always project the true financial position of the County in its financial records and the same availed to the Auditor General during audit.

- The Accounting Officer should institute measures to ensure that the County Executive adheres to International Public Sector Accounting Standards (IPSAS) consistent with the Public Finance Management Act, 2012.

4.8.4 Outstanding Imprests

- All Accounting Officers should institute measures to ensure that County Government staff adhere to government regulations and procedures on imprests to guard against malpractices.
- The relevant Accounting Officers to adhere to the PFM Act, 2012 on imprest by instituting recovery of funds as provided therein.

1.9. Pending Accounts Payables

- The CEC Member for Finance and Economic Planning should take personal interest in the matter of pending Bills and table before the County Assembly within one (1) month of adoption of this report a paper/framework indicating on how the County Government shall clear all pending bills as reported by the Auditor General in the special audit report on pending bills. The payment plan should be such that the pending bills are cleared before the end of the term of the current Government.

1.10. Non-Current Assets and Assets Register

- The CEC Member for Finance and Economic Planning should ensure that the County Government prepares a comprehensive digitized fixed assets register and table a report on the same in the County Assembly within three (3) months of adoption of this report.

1.11. Budget Performance

1.11.1. County Own Generated Receipts

- The County Treasury should put measures in place to help meet revenue targets.
- The CEC Member for Finance should within one (1) month of adoption of this report table a report before the County Assembly on measures being taken to enhance revenue collection particularly on the adoption of an internal foolproof automated revenue collection system.

1.11.2. Overall Under-Expenditure

- The County Executive must at all times implement the budget as approved.

- The Accounting Officers should ensure that each Sector/Department prepares a procurement plan at the commencement of the Financial Year and the said plans should strictly be adhered to. Each Department should be allowed financial independence to be able to implement its programs.

1.11.3. Failure to achieve 30% allocation on Development Budget

- The CEC Member for Finance must ensure adherence to the Regulation 25(1) (g) of Public Finance Management (County Governments) Regulations, 2015 on spending of 30% of the budget on development.
- The County Treasury should adhere to budgetary provisions and controls.

1.12. Compensation of Employees

1.12.1. Unsustainable Wage Bill

- The CPSB should fast track and finalize its policy on voluntary early retirement so that surplus officers especially the unskilled should be encouraged to retire. Those who have reached the legal retirement age across the entire County Government should be made to retire.
- The CPSB should focus on recruiting technical officers in the areas where there is a deficit and avoid ballooning the wage bill with unskilled officers.

1.12.2. Increase in Temporary Workers Wage Bill

- The CPSB & PSM should within two (2) months of adoption of this report develop a policy on employment of casual labourers.
- The EACC should conduct further investigations on the recruitment of casual labourers during the year under review and subsequent years to ascertain whether there was actual loss of funds and take appropriate action including prosecution of those found culpable.
- The PSM should always account and keep proper records for all casual labourers engaged.

1.12.3. Staff Establishment

- The CEC Member, PSM and CPSB should take a personal interest in this matter and liaise with the CPSB ensure that a staff establishment is put in place within a period of three (3) months of adoption of this report and report the same to the County Assembly.

I.13. Procurement of Goods, Services and Works

I.13.1.Documents Not Provided for Audit

- The CEC Member for Finance should take disciplinary action against the Head of Supply chain at the time of audit for failing to act on the request of the Auditor General and thus breaching the law.
- The Head of Supply Chain should institute measures to ensure that the Procurement Department always acts in time when dealing with the Auditor General.

I.13.2.Construction of Maringo Market

- The Head of Supply Chain should institute measures to ensure that the Procurement Department always acts in time when dealing with the Auditor General.

I.13.3.Construction of Public Transport Facility at Mama Lucy Hospital

- The County Government should always conduct due diligence before awarding contracts and all contractors who underperform must be blacklisted.
- Accounting Officers should ensure that all projects are completed and handed over within the contractual timelines and that contractors fulfil their obligations

I.13.4.Grading and Gravelling of Selected Roads in Lower Savannah Ward

- The County Government should always conduct due diligence before awarding contracts and all contractors who underperform must be blacklisted.
- Accounting Officers should ensure that all projects are completed and handed over within the contractual timelines and that contractors fulfil their obligations.

I.13.5.Grading, Gravelling and Improvement of Tassia Roads.

- The County Government should always conduct due diligence before awarding contracts and all contractors who underperform must be blacklisted.
- Accounting Officers should ensure that all projects are completed and handed over within the contractual timelines and that contractors fulfil their obligations.

I.13.6.Wastage of Bitumen KI-60 COLAS

- That the County Secretary takes disciplinary action against officers who caused the loss of Bitumen KI-60 COLAS during the period under review.
- The Chief Officer, Roads and Public Works puts in mechanisms that ensures that all procured construction materials does not go to wastage.

1.13.7. Purchase of Electrical Items

- That the County Secretary takes disciplinary action against officers at the Highways Store whose actions of omission/commission during the period under review might have led to loss of the queried materials.
- The Chief Officer, Roads and Public Works and head of procurement should forthwith put in place internal control measures at the Highway store and all other stores to avoid pilferage and loss of valuable materials.

1.13.8. Supply and Delivery Installation Testing and Commissioning of 50 Ton Electronic Weighbridge and Standby Generator.

- The County Secretary should take disciplinary action against responsible officers for negligence of duty.
- The Chief Officer, Environment and the Head of Procurement should immediately ensure that the weighbridge is installed to forestall any falsification of data at the weighbridge as a way of siphoning public money.
- The County Government should put in mechanisms to shift from the whole concept of dumping of waste at Dandora dumpsite as a mode of waste management and embrace modern ways of waste management including recycling.

1.13.9. Staff Medical Insurance Cover

- The Auditor General to conduct a special audit on the entire procurement process of the medical insurance cover for the period under review and the subsequent years for the Committee to take necessary action.
- That the Chief Officer finance should ensure that all payments are effected through the IFMIS for accountability purposes.
- The Chief Officer, PSM and the Head of Supply Chain to cooperate with the Auditor General and supply all the required documents relating to the procurement of the medical insurance cover.

1.13.10. Construction of Korogocho Motorable Bridge and Access Road

- The County Government should always conduct due diligence before awarding contracts and all contractors who underperform must be blacklisted.
- The County Government should undertake integrated planning and development to avoid overlapping works and hence additional costs to the taxpayer.

- Accounting Officers should ensure that all projects are completed and handed over within the contractual timelines and that contractors fulfil their obligations.

I.14. Beautification of Nairobi

- The Ethics and Anti-Corruption Commission (EACC) is invited to investigate the city beautification program during the period under review that was conceived and implemented in unclear circumstances. The contractors and officers involved should be investigated to clarify how they implemented the program and if there was any impropriety they be held to account.
- That in future, all development programs must be budgeted for and all records relating to the program availed on time to the Auditor General for review.

I.15. Irregular Collection of Garbage in Non-Contracted Zones/Areas

- The Chief Officer, Environment should ensure that garbage collection contractors adhere to the terms and conditions of the contracts and that they are paid in accordance to the terms and conditions in their contracts. In the event of invoking special conditions, the same should be done in writing and the reasons for such action should be included. The appointing authority should sanction any officer who fails to adhere to this.
- The CEC Member for Finance to ensure that firms, which irregularly benefited from the irregular contract variation during the period under review are surcharged and the same to be reported during the next audit cycle by the Auditor General.

I.16. Stalled Projects

- That before engaging a service provider especially contractors for capital projects, the County Executive must at all times undertake due diligence and determine whether the service provider has the requisite financial capacity, technical expertise and demonstrated experience to perform the work. In future, the CEC Member for Finance and Economic Planning should hold liable officers who award tenders to incapacitated companies.
- That the CEC Member for Finance and Economic Planning should establish project management teams in Sectors whose mandate should include conceptualization of viable projects with definite completion timelines and adhere to the tenets of project management.

- That all abandoned projects as observed by the Auditor General and confirmed by the Chief Officers should be retendered and works awarded to competent firms so that the residents can realise the intended benefits.

1.17. Health Facilities

1.17.1. Human Resource Management

c) Mama Lucy Kibaki Hospital

- The CPSB should be the only recruiting entity in the County Government irrespective of the terms of service as provided for in Section 63(1) of County Government Act, 2012.
- The CPSB should ensure that all hospitals endeavour to employ skilled officers on permanent terms given the critical services they offer.
- Casual labourers should only be engaged for non-core functions/services such as cleaning to reduce the risk they pose to the institution.
- Employment in any County Government entity should be as per the entity's approved staff establishment

d) Dandora Health Centre

- The County Government through the CPSB should ensure that the Health Centre is well staffed as per the approved staff establishment.

1.17.2. Budgeting and Financing of Health Facilities in Financial Year 2017/2018

c) Undisbursed Funds

- The County Treasury should be disburse funds to the health centres as per the budgeted.

d) Comparison of Budget and Actual Amounts

- The County Treasury should enhance revenue collection and priorities disbursement of funds to health centres.
- The Head of Supply Chain and all accounting officers should plan the procurement process in order to ensure that all budgeted activities are implemented.

1.17.3. Failure to Supply Drugs and Non-Pharmaceutical Items to the Health Facilities

- The CEC Member for Health Services should take personal interest in this matter and ensure that all bureaucracies affecting supply of drugs to health centres are eliminated. In addition, the CEC Member should engage the CEC Member for Finance and ensure that debts owed to KEMSA are settled.

- The CEC Member for Health Services, the Chief Officer for Health and Hospital Heads should ensure that health facilities are at all times stocked with Drugs and Non-Pharmaceutical.

I.17.4.Expired Drugs

- The Chief Officer, Health Services should within three(3) months of adoption of this report develop a policy on how to procure and supply drugs to the County hospitals to eliminate ambiguities that lead to supply of unnecessary and expired drugs. The policy should demand that procurement of drugs should be initiated by the individual hospital based on its needs analysis.
- The Hospitals before accepting drugs from either KEMSA or any other agency/supplier must first determine that they are not likely to expire in a short-while.
- The Hospital Heads should ensure frequent stock taking in order to pre-empt drugs that are almost reaching their expiry dates.

I.17.5.Failure to Issue Medical Certificates to Food Handlers

- The Chief Officer, Health Services should henceforth ensure that the service of issuing food-handling certificates to food handlers is never interrupted in order to guarantee the health of the residents.
- In the event of engaging private laborites for whatever reasons, the cost associated with that should be borne by the County Government and not the food handlers.
- The Chief Officer Health Services should always submit to the Auditor General all the requested documents and information during audit period.

I.18. Confidential Expenditure

- The CEC Member for Finance should reprimand and surcharge officers and persons who incurred the illegal confidential expenditure amounting to Kshs. 14,405,900.
- The Chief Officer Finance and all other Accounting Officers across the County Government should only approve expenditure that is authorised by law and budgeted for.

ANNEXURES

Annex	Title
Annex 1	Minutes of the Sittings
Annex 2	Written Responses to all audit queries by the CEC Member for Finance & Economic Planning
Annex 3	Submissions on Staff Medical Cover
Annex 4	Submissions on Projects
Annex 5	Submissions on Nairobi City County Liquor Board