

**ANALYSIS OF THE  
AUDITOR GENERAL'S  
REPORTS**

**ON THE FINANCIAL STATEMENTS  
OF NAIROBI COUNTY EXECUTIVE  
2015/16 - 2017/18**

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## 1.0 Introduction

The Office of the Auditor General is established as an independent office under article 248(3) of the constitution of Kenya 2010 to carry out audit for public entities both at the national level and at the county level. The audit of public accounts is guided by the International Standards on Auditing (Kenya National Audit Office, 2014). The Auditor-General audits the accounts of the entities and expresses an opinion stating whether all information and explanations considered necessary for the audit were received; proper records were maintained of all transactions as required under the generally accepted accounting principles; and the accounts reflect fairly the financial position of the entity audited. In accordance to section 30 of the Public Audit Act, the audited reports are required to be submitted to the officer responsible for finance who shall then lay the report before the County Assembly.

Nairobi County is one of the forty seven counties in Kenya that receives the highest financial allocation from the exchequer. With an estimated population of 3 million people, the county faces a tremendous task to provide adequate services to its residents. Over the three years analyzed, the County Government of Nairobi has received a total of Ksh. 41.1 billion according to the Commission for Revenue Allocation (CRA) data. It's worth noting that total allocated amount comprises of equitable and conditional transfers. Although the county receives substantial financial allocation, provision of services to its residents is below expectation and this is supported by the release of annual audit reports from the Office of the Auditor General (OAG). The Auditor—General audits the accounts of public entities and expresses an opinion stating whether:- all information and explanations considered necessary for the audit were received; proper records were maintained of all transactions as required under the generally accepted accounting practices; and the accounts reflect fairly the financial position of the entity audited. This report examines the findings contained in the financial audit reports published by the Office of the Auditor General for the three consecutive years from 2015/16 to 2017/18.

### 1.1 Methodology

The study analyzed the reports of the Auditor-General on the financial statements of Nairobi County Executive for the financial years 2015/16, 2016/17 and 2017/18. It relied on the Controller of Budget and Auditor-General's reports for Nairobi County. The analysis involved classification of the audit queries into the categories outlined in Figure 6. Summary and presentation of findings were done through descriptive statistics.

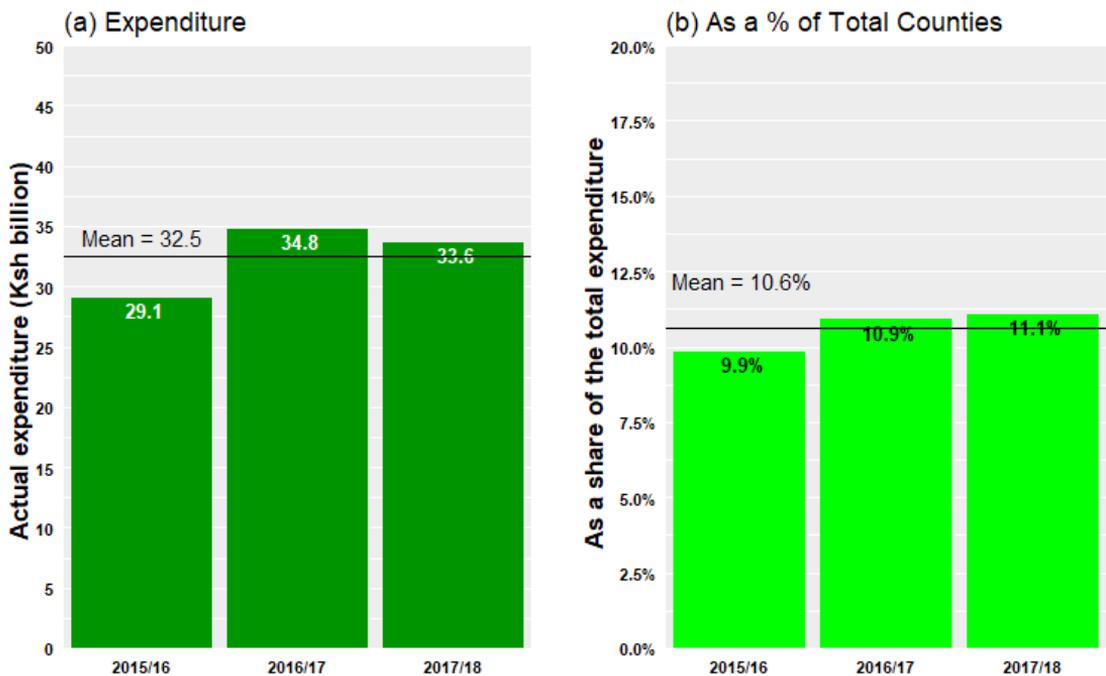
**Table 1: Summary of Audit Opinions**

Unqualified	Qualified	Adverse	Disclaimer of Opinion
A clean opinion expressed when the auditor concludes that the financial statements give a true and fair view in accordance with the identified financial reporting framework.	The Auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements	The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.	The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion and concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive

Source: Auditor General’s explanations for the basis of Audit qualification

## 2.0 Expenditure Analysis

**Figure 1: Trends in expenditure**



Source: Auditor General’s explanations for the basis of Audit qualification

The County of Nairobi is one of the forty-seven counties that receive the highest financial allocation from the exchequer. With an estimated population of 3.1 million people, the county serves as the nerve center of the country by virtue of hosting key government and regional institutions. The demand for public services in the county is high and this has led to an increase in expenditure by the county over the years.

The chart above illustrates that actual spending in the county has been increasing annually in nominal terms; from Ksh.29.1 billion in FY 2015/16 to Ksh.33.6 billion in FY 2017/18, averaging a Ksh.2.25 billion increase annually. As a share of total expenditure with respect to all counties, the county's share averaged 10.6% over the three financial years analyzed.

With a relatively substantial budget, prudence in the management of public resources is an expectation of every taxpayer so much so that it meets its legal and policy mandate of providing every county resident the highest attainable public service.

## 2.1 Overall Audit Findings

**Table 2: Overall Audit Opinion**

	2015/16	2016/17	2017/18
Opinion	Disclaimer of Opinion	Disclaimer of Opinion	Disclaimer of Opinion

The Office of the Auditor General draws its mandate from the Constitution of Kenya and it's governed by a series of other legislation notably the Public Audit Act 2015, the Public Finance Management Act 2012 and International Standards of Supreme Audit Institutions. Article 229 (4) states that the Auditor General shall audit and report in respect to a particular financial year, the accounts of all funds and authorities of the national and county governments. From 2015/16 financial year till 2017/18, the auditor general awarded the county executive of Nairobi a disclaimer of opinion.

This means that the county executive of Nairobi did not provide sufficient and vital information to the auditor general thereby preventing the auditor's office from awarding an opinion. The Public Finance Management Act 2012 section 94 (1) (d) elaborates that an entity that is funded by public funds is in serious breach of the act if the auditor general awards it a disclaimer of opinion. Although a change in the administration took place in 2017, it's clear that no change has taken place in the handling of financial affairs at the county executive. The county executive of Nairobi needs to improve its cooperation with the OAG by supporting the auditor general by issuing all relevant documentation requested for audit.

## 2.2 Audit Queries

**Table 3: Share distribution of Audit Queries/Issues**

CG	2015/16	2016/17	2017/18
Number of issues queried:	28	18	35
Unqualified opinion:	0	0	0
<b>Total:</b>	<b>28</b>	<b>18</b>	<b>35</b>

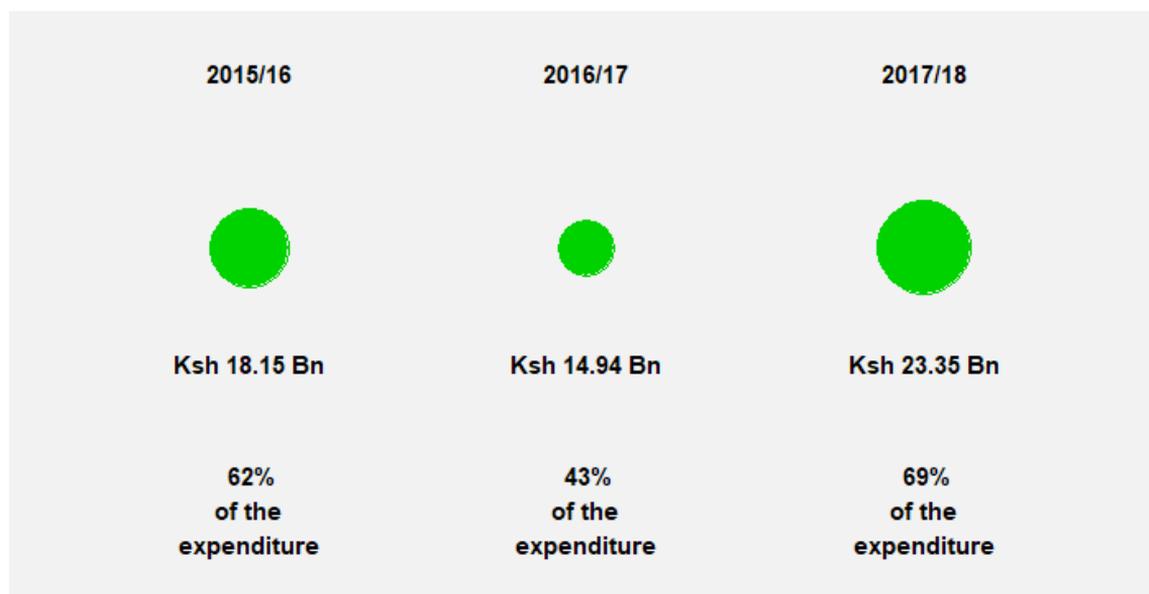
Source: Author's calculation from The Auditor General's Report on the Financial Statements for the County Executive of Nairobi County

The table (on page 5) provides a summary of the count of the audit queries, that is, questions raised by the auditor general with regards to adherence to financial rules and regulations. Over the years analyzed the county executive of Nairobi has not received a clean bill of health from the Auditor General. In 2015/16 financial year, a total of 28 audit issues were raised under the county executive of Nairobi, the number dropped to 18 in 2016/17 financial year and rose steeply to 35 in 2017/18.

The steep inconsistent trend in the number of issues queried between 2016/17 and 2017/18 financial years portrays negligence by the county executive in adhering to financial rules and regulations. It's worth noting that although a change in the administration took place at the county in 2017, financial accountability is still an issue that needs to be sorted out if the county executive of Nairobi is to receive a better opinion from the auditor general.

### 2.3 Trends in Total Queried amount

Figure 2: Trends in total queried amount



Source: The Auditor General’s Report on the Financial Statements for the County Executive of Nairobi County

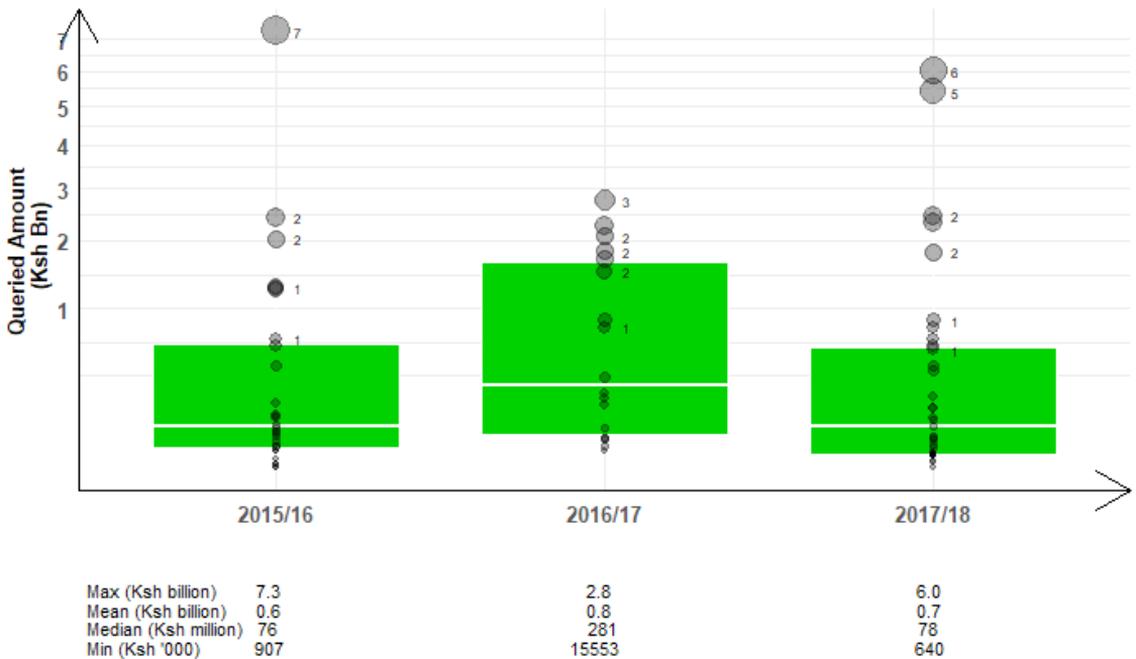
Queried amount refers to the amount relating to the audit queries raised by the auditor general when conducting an audit. It shows that financial transactions were performed unlawfully with respect to International Public Sector Accounting Standards (IPSAS). The figure above summarizes the trends in a total queried amount from 2015/16 financial year to 2017/18 financial year.

Findings show that the auditor general raised questions regarding transactions amounting to Ksh. 18.15 billion in 2015/16, Ksh.14.94 billion in 2016/17 and Ksh.23.35 billion in 2017/18. As a percentage of actual spending for the entire county, the queried amounts represented 62%, 43% and 69% for the three consecutive years.

Although the queried amounts do not directly imply that the money was lost, it may indicate that a significant number of transactions were not performed procedurally and in a manner that adheres to established financial reporting rules and regulations.

## 2.4 Distribution of Queried Amount

Figure 3: Distribution of the Queried Amount, FY 2015/16 – 2017/18



Source: The Auditor General’s Report on the Financial Statements for the County Executive of Nairobi County

In 2015/16, the largest queried amount was Ksh 7.3 billion and the smallest amount queried was Ksh 907,000. The average expenditure queried was Ksh 600,000.

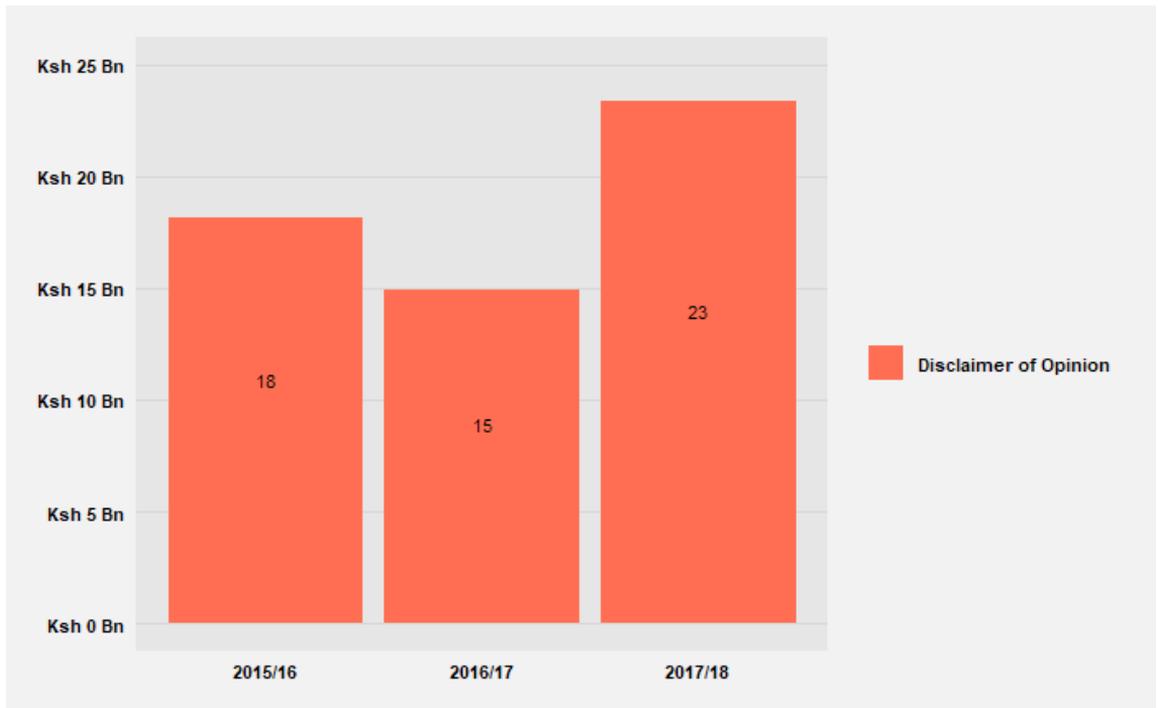
In 2016/17, the largest amount queried amount was Ksh 2.8 billion, while the smallest queried amount was Ksh 15,553,000. The average expenditure queried in 2016/17 was Ksh 800,000.

In 2017/18, the average expenditure queried was Ksh 700,000. The largest queried amount in that year was Ksh 6 billion and the smallest expenditure queried being Ksh 640,000.

The average expenditure queried in 2017/18 was Ksh 700,000. Given the yearly budgets of County Government of Nairobi; the amounts queried above remain substantial.

## 2.5 Distribution of queried amount across audit opinion

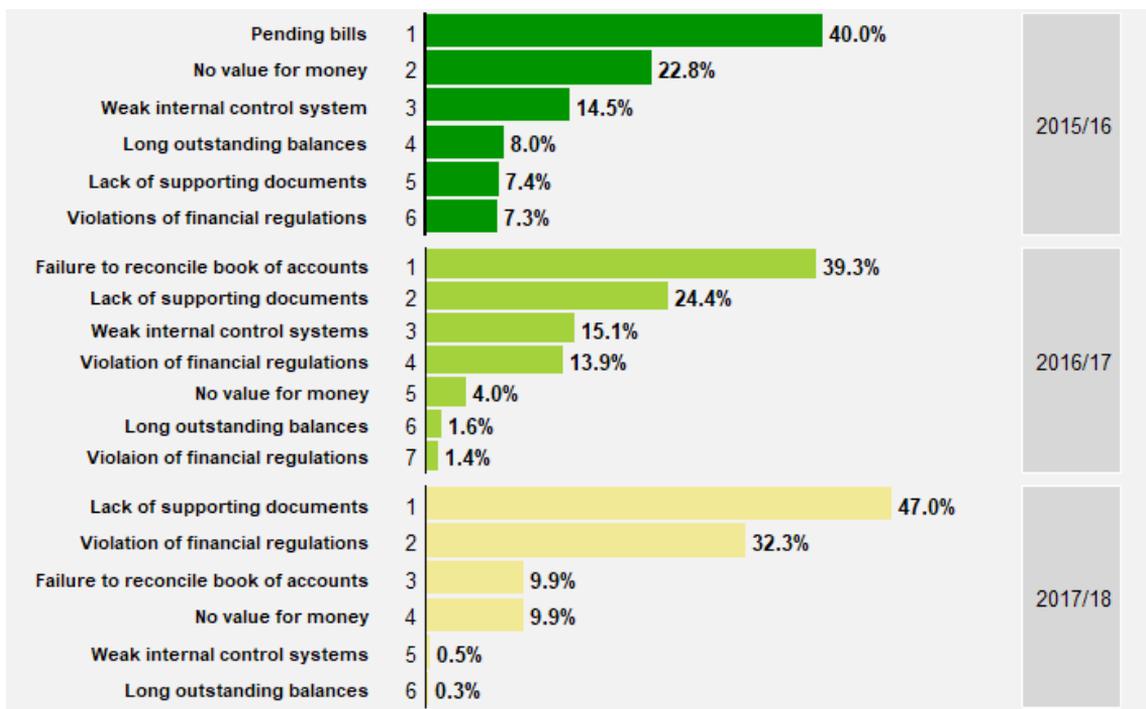
Figure 4: Trends in queried amount across audit opinions



Source: The Auditor General’s Report on the Financial Statements for the County Executive of Nairobi County

County Government of Nairobi received disclaimer of opinion in the last three consecutive financial years; 2015/16, 2016/17 and 2017/18. The total queried amounts ranged from Ksh 18 billion shillings in 2015/16, Ksh 15 billion shillings in 2016/17 and Ksh 23 billion shillings in 2017/18. The total queried amount in the last three financial years was Ksh 56 billion Shillings.

Figure 5: Queried amount across specific financial violations (issues)



Source: The Auditor General’s Report on the Financial Statements for the County Executive of Nairobi County

The top queries in 2015/16 related to pending bills, no value for money, weak internal control, long outstanding balances, lack of supporting documents and violation of financial regulations. 77.3% of all queried amounts in 2015/16 related to pending bills, no value for money and weak internal controls. The remaining 22.8% related to long outstanding balances, lack of supporting documents and violations of financial regulations.

In 2016/17, top queries included failure to reconcile books of accounts, lack of supporting documents, weak internal controls, and no value for money, long outstanding balances and violation of financial regulations. 92.7% of the queries related to failure to reconcile books of accounts, lack of supporting documents, weak internal controls, and violation of financial regulations.

In 2017/18, top queries were lack of supporting documents, violation of financial regulations, failure to reconcile books of accounts and no value for money.

### 3.0 Prior Year unresolved Issues

**Table 4: Trends in Prior Year unresolved Issues**

	2015/16	2016/17	2017/18
Number of recurring queries:	9	8	5
Total Number of queries:	28	18	35
Recurring queries as a % of the total:	32.1%	44.4%	14%

The number of recurring queries as a share of total queries increased in 2015/16 financial year from 32.1% to 44.4% in 2016/17 financial year and reduced in 2017/18 to 14% financial year. The recurring queries reduced from 9 in 2015/16 financial year to 8 in 2016/17 financial year and 5 in the 2017/18 financial year.

### 4.0 Opportunity Costs

#### 4.1 Unauthorized Budgetary Reallocation

The auditor general queried Ksh.225, 557,043 which relates to an unauthorized reallocation by the county executive of Nairobi. The amount was used to pay for goods and services during the 2016/2017 financial year. Ksh. 225, 557, 043 could be used to purchase at least 4,900 H.P Desktop Computers 110-29 Core which cost Ksh 45,699 each. If each county primary school receives at least 100 of these computers, 49 county primary schools would benefit from this initiative thereby contributing towards deepening information technology knowledge in county primary schools.

#### 4.2 Un-budgeted Expenditure Incurred off IFMIS

The auditor general queried Ksh. 2,254,414,285 which relates to payments that were made off IFMIS which were not budgeted thereby contravening the National Treasury regulations on the use of IFMIS during 2016/17 financial year. Ksh. 2,254,414,285 could be used to purchase at least 7 linear accelerator cancer machines which cost an average Ksh. 300,000,000 each. The linear accelerator is state of the art equipment that is critical to the treatment of cancer. Kenyatta National Hospital is the only public hospital that has acquired such equipment thereby placing the institution under stress of handling many cancer patients.

## 5.0 Conclusion

The disclaimer of opinion awarded in the last three consecutive financial years shows the Auditor General Scope was not provided with adequate documentary evidence upon which to form an opinion. This is outright contravention of the Public Finance Management regulations. Under the Public Financial Management Act, a disclaimer of opinion is one of the grounds that Cabinet Secretary in charge of National Treasury can apply for stoppage of funds, provided the conditions referred to in Article 225(3) of the Constitution are met and all relevant facts are to be considered before the Cabinet Secretary takes action.

It's important that systems are put in place by the County Executive of Nairobi to enhance the accountability of public resources. It's also important to note improved accountability of resources will effectively lead to improved public service delivery. An effective County Public Financial Management system translate to long-term benefits for the citizens, mainly in terms of improved services.

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