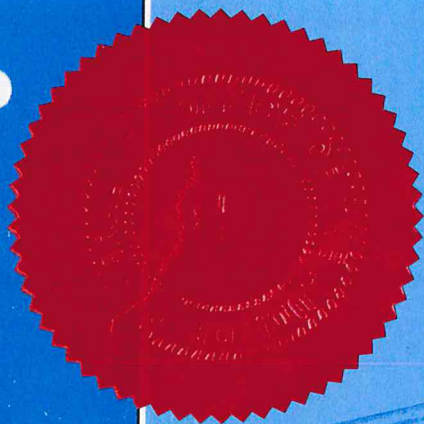


REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

THE NATIONAL ASSEMBLY
PAPERS LAID

DATE: 01 DEC 2020

DAY:
TUESDAY

TABLED
BY:

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CLERK-AT
THE-TABLE:

Miniam Mochi

REPORT

OF

THE AUDITOR-GENERAL

ON

**CASH TRANSFER FOR ORPHANS AND
VULNERABLE CHILDREN (CT-OVC)
PROGRAMME - IDA GRANT NO.TF097272**

**FOR THE YEAR ENDED
30 JUNE, 2019**

**STATE DEPARTMENT FOR
SOCIAL PROTECTION**



**CASH TRANSFER FOR ORPHANS AND VULNERABLE CHILDREN
(CT-OVC) PROGRAMME**

**MINISTRY OF LABOUR AND SOCIAL PROTECTION (SOCIAL PROTECTION
SECRETARIATE)**

PROJECT GRANT/CREDIT NUMBER NO. TF097272

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE YEAR ENDING
30 JUNE, 2019**

**Prepared in accordance with the Cash Basis of Accounting Method under the International Public Sector
Accounting Standards (IPSAS)**

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I. PROJECT INFORMATION AND OVERALL PERFORMANCE

1.1 Name and registered office

The project's official Name:

Cash Transfer for Orphans and Vulnerable Children (CT-OVC) Programme.

Physical Address :(Headquarters)

NSSF Building, Nairobi (city), Nairobi County, Kenya.

P. O. Box 46205-00100 GPO, Nairobi.

Contacts

Telephone: (254) 722 319 186

E-mail: ovc@gmail.com OR ct_ovc@yahoo.com

Project Coordinator

John Gachigi

1.2 Project Information

Project Start Date:	The project start date is 31 March 2009
Project End Date:	The project end date is 31 December 2018
Project Manager:	The project manager is John Gachigi
Project Sponsor:	The project sponsor is World Bank Grant No.TF097272

1.3 Project Overview

Line Ministry/State Department of the project	The project is under the supervision of the – Ministry of Labour and Social Protection
Project number	TF 097272

Strategic goals of Project	<p>The strategic goals of the project are as follows:</p> <ul style="list-style-type: none"> (i) Strengthening the capacity of families to protect and care for the Orphans and Vulnerable Children (ii) Mobilizing and supporting community response (iii) Ensuring access to essential services including education, healthcare, Birth registration and others for OVC (iv) Improving Government Policy and Regulations. (v) Creating a supportive environment through advocacy and social mobilization (vi) Developing and improving the capacity to monitor and evaluate programme effectiveness (vii) Strengthening, supporting and coordination of institutional Structures.
Achievement of strategic goals	<p>The project management aims to achieve the goals through the following means:</p> <ul style="list-style-type: none"> (i) Increase social safety net access to extremely poor OVC households in Kenya (ii) Build the capacity of the Government systems to effectively deliver The safety net project to the vulnerable groups.
Current situation that the project was formed to intervene	<p>The project was formed to intervene in the following areas:</p> <ul style="list-style-type: none"> (i) Address cases of vulnerable group and children and be integrated to Families. This was to be achieved by giving households bi-annual cash subsidy to take care of the vulnerable persons
Project duration	The project started on 31 March 2009 and ended on 31 December 2018

1.4 Bankers

The following are the bankers for the current year:

- (i) Co-operative Bank of Kenya Limited -011411333228000
- (ii) Central Bank of Kenya Limited - 1000311304

1.5 Auditors

The project is audited by Office of The Auditor General

1.6 Roles and Responsibilities

Names	Title designation	Key qualification	Responsibilities
John Gachigi	Senior Assistant Director	Masters	Head of Social Assistance Unit(Project Coordinator)
Moses Muga	Chief Accountant	MSC Com. CPA(K)	Project Accountant
Judy Oduor Tuda	Principle Children Officer	Bachelor's Degree	Head of Compliance and Grievances
Sydney Paul Achia	Senior Children Officer	Bachelor's Degree	Head of MIS and Payments

1.7 Funding summary

The Project is for duration of 9 years from 2009 to 2018 with an approved budget of US\$ 79,284,446 equivalent to Kshs 8,340,726,732 as highlighted in the table below:

Below is the funding summary:

Source of funds	Donor Commitment-		Amount received to date – (31 December 2018)		Undrawn balance to date (31 December 2018))	
	Donor currency	Kshs	Donor currency	Kshs	Donor currency	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
(i) Grant						
DFID Trust Fund	79,284,446	8,340,726,732	78,345,988.87	8,242,001,005	938,457	98,725,726
IDA CREDIT (Transfers)			636,588.86	66,969,172.50		
Total	79,284,446	8,340,726,732	78,982,578	8,308,970,178	938,457	98,725,726

1.8 Summary of Overall Project Performance:

1. The Program has gradually expanded its scope/support from 500 households pre-pilot in 2009 and reaching 353,000 households by December 2018.
2. The Program has increased school enrolment and attendance and reduced rates of mortality and morbidity


Approval of the Project financial statements

The Project financial statements were approved by the Principal Secretary of State Department for Social Protection and the Project Coordinator for CT-OVC Programme on

31/12/ 2019 and signed by them.



Principal Secretary
Nelson Marwa Sospeter, **EBS**



Project Coordinator
John Gachigi



Project Accountant:
Moses O. Muga
ICPAK Member No. **14266**

II. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES

The Principal Secretary, State Department for Social Protection and the Project Coordinator for Cash Transfer for Orphans and Vulnerable Children (CT-OVC) Programme are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the Project for the year ending 30 June, 2019. This responsibility includes: (i) maintaining adequate financial management arrangement and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Project; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Project; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

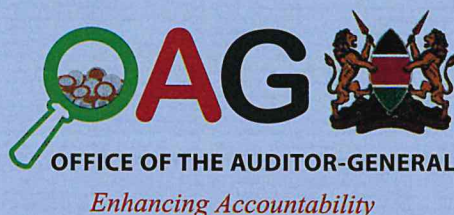
The Principal Secretary, State Department for Social Protection and the Project Coordinator for Cash Transfer for Orphans and Vulnerable Children (CT-OVC) Programme accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

The Principal Secretary, State Department for Social Protection and the Project Coordinator for Cash Transfer for Orphans and Vulnerable Children (CT-OVC) Programme are of the opinion that the Project's financial statements give a true and fair view of the state of Project's transactions during the year ending 30 June, 2019, and of the Project's financial position as at that date. The Principal Secretary of State Department for Social Protection and the Project Coordinator for CT-OVC Programme further confirms the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial statements as well as the adequacy of the systems of internal financial control.

The Principal Secretary, State Department for Social Protection and the Project Coordinator for CT-OVC Programme confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the financial year/period under audit were used for the eligible purposes for which they were intended and were properly accounted for.

REPUBLIC OF KENYA

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HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON CASH TRANSFER FOR ORPHANS AND VULNERABLE CHILDREN (CT-OVC) PROGRAMME - IDA GRANT NO.TF097272 FOR THE YEAR ENDED 30 JUNE, 2019 - STATE DEPARTMENT FOR SOCIAL PROTECTION

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Cash Transfer for Orphans and Vulnerable Children (CT-OVC) Programme - IDA Grant No. TF097272 set out on pages 1 to 18, which comprise the statement of financial assets as at 30 June, 2019, and the statement of receipts and payments, statement of cash flows and statement of comparative budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Cash Transfer for Orphans and Vulnerable Children Programme as at 30 June, 2019 - State Department for Social Protection, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the amended Financing Agreement No.TF097272 dated 19 December, 2013 and Public Finance Management Act, 2012.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Cash Transfer for Orphans and Vulnerable Children Programme Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter

I draw your attention to the non-financial information on page (ii) Paragraph 1.2 of the financial statements which has disclosed that the Programme came to an end on

Report of the Auditor-General on Cash Transfer Program for Orphans and Vulnerable Children (CT-OVC) Programme - IDA Grant No. TF097272 for the year ended 30 June, 2019 - State Department for Social Protection

31 December, 2018. Further, as disclosed in Note 6.1 - Programme bank account, the balance of the fund amounting to Kshs.7,447,219 was effectively surrendered to the donor through the National Treasury in March, 2019.

My opinion is not modified in respect to the effect of this matter.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

Other Matter

Budgetary Control and Performance

The Programme's final approved budget for the year under review totalled Kshs.445,199,603 against actual receipts of Kshs.346,111,690 resulting to a shortfall of Kshs.99,087,913 or about 22% of the budgeted receipts.

Similarly, the Programme spent an overall amount of Kshs.441,187,204 against an approved budget of Kshs.445,199,603 resulting to an under expenditure of Kshs.4,012,399 which is only 1% of the approved budget.

Management has however attributed the deviation to the closure of the Programme activities as at 31 December, 2019 after the expiry of the Programme.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

1. Management of Assets

As disclosed in Note 4 to the financial statements, the statement of receipts and payments reflects cumulative non-financial assets balance of Kshs. 472,474,728. It was however, noted that the assets register maintained did not reflect values against each of the asset. Further, Management did not keep its own assets register from that used in recording the State Department's assets.

Consequently, the Management may not have instituted proper safeguard and custody of the assets under the programme.

2. Ineffective Communication and Call Centres

The Social Protection Secretariat through the support of World Food Programme applied for a memorable short code and was awarded a 1533 toll free line by Communication Authority of Kenya. This was aimed at responding to the cash transfer queries from the beneficiaries of the National Safety Net Programme. A physical inspection of the Call Centre in the month of September, 2019 revealed that the Centre has only two (2) officers, considerably inadequate to operate the system.

Further, whereas the toll-free line operates between 8am to 5pm on Mondays to Fridays thus limiting access to the facility, there is no Internet Voice Response (IVR) system to provide automatic answers to the location, hours of operation and solutions to simple problems like information about targeting, opening of accounts, change of caregiver and direct beneficiaries to the appropriate solutions for any challenges during these times. Since the calls are one way, feedback on the toll-free line is curtailed.

In addition, a non-subscriber to a particular subscriber line cannot reach the toll-free number 1533, and when the system is experiencing network issues, proper feedback to and from callers is limited.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit so as to obtain assurance as to whether effective processes and systems of internal controls, risk management and overall governance was

maintained in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by World Bank Grant No.TF097272, except for the matters reported in the basis for conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I report based on my audit, that:

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- ii. in my opinion, adequate accounting records have been kept by the Programme, so far as appears from the examination of those records; and,
- iii. the Programme financial statements are in agreement with the accounting records and returns.

Responsibilities of Management and those charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for maintaining effective internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Programme's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Programme or cease operations.

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

In addition to the responsibility for the preparation and presentation of the financial statements described above, management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources as applied in an effective way.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Programme monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to overall

governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and review of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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


- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those

risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Programme's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Programme to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Programme to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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



Nancy Gathungu
AUDITOR-GENERAL

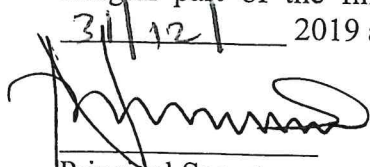
Nairobi

24 November, 2020


**1. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR
ENDING 30 JUNE 2019**

	Note	2018/19	2018/19	2017/2018	
		Receipts and payments controlled by the entity	Payments made by third parties	Receipts and payment controlled by the entity	Cumulative to-date
		KSHS	KSHS	KSHS	KSHS
RECEIPTS					
Proceeds from domestic and foreign grants(World Bank)	1	346,111,690		392,537,200	8,242,001,006
Refunds from IDA Credit	1				66,969,172.50
TOTAL RECEIPTS		346,111,690		392,537,200	8,308,970,178.50
PAYMENTS					
Compensation of employees	2	53,552,192.00		95,316,475.50	232,461,427.45
Use of goods and services	3	107,861,652.45		148,982,480.00	1,465,138,509.55
Acquisition of non-financial assets	4	279,773,359.85		65,995,380.75	472,474,727.60
Other grants and transfers and payments	5				6,131,448,295
TOTAL PAYMENTS		441,187,204		310,294,336	8,301,522,959.60
SURPLUS/DEFICIT		-95,075,514	-	82,242,864	7,447,218.90

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 31/12/2019 and signed by:


Principal Secretary
Nelson Marwa Sospeter, CBS


Project Coordinator
John Gachigi

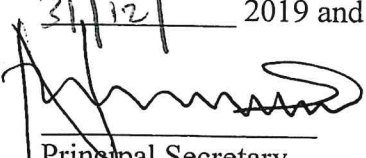

Project Accountant
Moses O. Muga
ICPAKM/Number: 14266


2. STATEMENT OF FINANCIAL ASSETS AS AT 30 JUNE 2019


FINANCIAL ASSETS

	Note	2018/19 KSHS	2017/18 KSHS
Cash and Cash Equivalents			
Bank Balances	6	0	102,522,733.30
District Fund			
Total Cash and Cash Equivalents		<u>0</u>	102,522,733.30
TOTAL FINANCIAL ASSETS		<u>0</u>	<u>102,522,733.30</u>
REPRESENTED BY			
Fund balance b/fwd	6	102,522,733.20	20,279,869.55
Surplus/Deficit for the year		(95,075,514.30)	82,242,863.75
Refund to World Bank	6	(7,447,219.00)	
NET FINANCIAL POSITION		<u>0</u>	<u>102,522,733.20</u>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 31/12/2019 and signed by:


Principal Secretary
Nelson Marwa Sospeter, CBS


Project Coordinator
John Gachigi

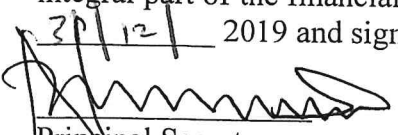

Project Accountant
Moses O. Muga
ICPAKM/N: 14266

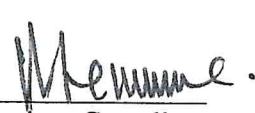
Cash Transfer for Orphans and Vulnerable Children
(CT-OVC) Programme
Reports and Financial Statements
For the year ended June 30, 2019


3. STATEMENT OF CASHFLOW FOR THE YEAR ENDING 30 JUNE 2019

CASH FLOW FROM OPERATING ACTIVITIES		2018/19 KSHS	2017/18 KSHS
Receipts For Operating Income			
Proceeds from Foreign Borrowings(WB)	1	346,111,690.00	392,537,200
TOTAL		346,111,690.00	392,537,200.00
Payments for Operating Expenses			
Compensation of Employees	2	53,552,192.00	95,316,475.50
Use of goods and services	3	107,861,652.45	148,982,480.00
TOTAL		161,413,844.45	244,298,955.50
Adjusted for:			
Changes in receivables		-	
Changes in payables		-	
Net cash flow from operating activities		184,697,845.55	148,238,244.50
CASHFLOW FROM INVESTING ACTIVITIES			
Acquisition of Assets	4	279,773,359.85	65,995,380.75
Net cash flows from Investing Activities		(279,773,359.85)	(65,995,380.75)
NET INCREASE IN CASH AND CASH EQUIVALENT		(95,075,514.30)	82,242,863.75
Cash and cash equivalent at BEGINNING of the period		102,522,733.30	20,279,869.55
Refund to World Bank		(7,447,219.00)	
Cash and cash equivalent at END of the period		0	102,522,733.30

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 30/12/2019 and signed by:


Principal Secretary
Nelson Marwa Sospeter, CBS

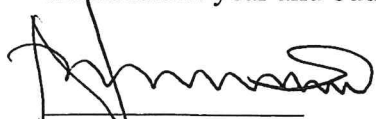

Project Coordinator
John Gachigi


Project Accountant
Moses O. Muga
ICPAKM/N: 14266

**4. STATEMENT OF COMPARATIVE BUDGET AND ACTUAL AMOUNTS
FOR THE YEAR ENDING 30 JUNE 2019**

Receipts/Payments Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization
	a	b	c=a+b	d	e=c-d	f=d/c %
	KSHS	KSHS	KSHS	KSHS	KSHS	KSHS
Receipts						
Proceeds from domestic and foreign grants	48,000,000	397,199,603	445,199,603	346,111,690	99,087,913	78%
Total Receipts	48,000,000	397,199,603	445,199,603	346,111,690	99,087,913	
Payments						
Compensation of employees	48,000,000	88,409.00	47,911,591.0	53,552,192.00	5,640,601	112%
Purchase of goods and services	0	103,642,397	103,642,397	107,861,652	4,219,255	104%
Acquisition of non-financial assets	0	293,645,615	293,645,615	279,773,360	13,872,255	95%
Total Payments	48,000,000	397,199,603	445,199,603	441,187,204	4,012,399	

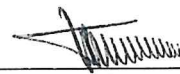
The significance deviation on budget utilization was due to closure of the project midway the financial year and budget transfer to grant through supplementary budget.



Principal Secretary
Nelson Marwa Sospeter, CBS



Project Coordinator
John Gachigi



Project Accountant
Moses O. Muga
ICPAK No: 14266

IV. NOTES TO THE FINANCIAL STATEMENTS

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

5.0 Basis of Preparation

5.1. Statement of compliance and basis of preparation

The financial statements have been prepared in accordance with Cash-basis IPSAS financial reporting under the cash basis of Accounting, as prescribed by the PSASB and set out in the accounting policy note below. This cash basis of accounting has been supplemented with accounting for; a) receivables that include imprests and salary advances and b) payables that include deposits and retentions.

The financial statements comply with and conform to the form of presentation prescribed by the PSASB.

The accounting policies adopted have been consistently applied to all the years presented.

5.1.1 Reporting entity

The financial statements are for the Cash Transfer for the Orphans and Vulnerable Children Project under National Government of Kenya. The financial statements encompass the reporting entity as specified in the relevant legislation PFM Act 2012 .

5.1.2 Reporting currency

The financial statements are presented in Kenya Shillings (KShs), which is the functional and reporting currency of the Project and all values are rounded to the nearest Kenya Shilling.

5.2 Significant Accounting Policies

a) Recognition of receipts

The Project recognises all receipts from the various sources when the event occurs and the related cash has actually been received by the Government.

- **Transfers from the Exchequer**

Transfer from Exchequer is be recognized in the books of accounts when cash is received. Cash is considered as received when payment instruction is issued to the bank and notified to the receiving entity.

- **External Assistance**

External assistance is received through grants and loans from multilateral and bilateral

development partners.

Donations and grants

Grants and donations shall be recognized in the books of accounts when cash is received. Cash is considered as received when a payment advice is received by the recipient entity or by the beneficiary. In case of grant/donation in kind, such grants are recorded upon receipt of the grant item and upon determination of the value. The date of the transaction is the value date indicated on the payment advice.

Proceeds from borrowing

Borrowing includes Treasury bill, treasury bonds, corporate bonds, sovereign bonds and external loans acquired by the Project or any other debt the Project may

take on will be treated on cash basis and recognized as a receipt during the year they were received.

UNDRAWN EXTERNAL ASSISTANCE

These are loans and grants at reporting date as specified in a binding agreement and relate to funding for the Project currently under development where conditions have been satisfied or their ongoing satisfaction is highly likely and the project is anticipated to continue to completion. An analysis of the Project's undrawn external assistance is shown in the funding summary

- **Other receipts**

These include Appropriation-in-Aid and relates to receipts such as proceeds from disposal of assets and sale of tender documents. These are recognized in the financial statements the time associated cash is received.

b) Recognition of payments

The Project recognises all payments when the event occurs and the related cash has actually been paid out by the Project.

- **Compensation of employees**

Salaries and Wages, Allowances, Statutory Contribution for employees are recognized in the period when the compensation is paid.

- **Use of goods and services**

Goods and services are recognized as payments in the period when the goods/services are consumed and paid for. If not paid for during the period where goods/services are consumed, they shall be disclosed as pending bills.

- **Interest on borrowing**

Borrowing costs that include interest are recognized as payment in the period in which they incurred and paid for.

- **Repayment of borrowing (principal amount)**

The repayment of principal amount of borrowing is recognized as payment in the period in which the repayment is made. The stock of debt is disclosed as an annexure to the consolidated financial statements.

- **Acquisition of fixed assets**

The payment on acquisition of property plant and equipment items is not capitalized. The cost of acquisition and proceeds from disposal of these items are treated as payments and receipts items respectively. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration and the fair value of the asset can be reliably established, a contra transaction is recorded as receipt and as a payment.

A fixed asset register is maintained by each public entity and a summary provided for purposes of consolidation. This summary is disclosed as an annexure to the consolidated financial statements.

c) In-kind donations

In-kind contributions are donations that are made to the Project in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the Project includes such value in the statement of receipts and payments both as receipts and as payments in equal and opposite amounts; otherwise, the contribution is not recorded.

d) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorized public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

Restriction on cash

Restricted cash represents amounts that are limited/restricted from being used to settle a liability for at least twelve months after the reporting period. This cash is limited for direct use as required by stipulation. Amounts maintained in deposit bank accounts are restricted for use in refunding third part deposits

e) Accounts receivable

For the purposes of these financial statements, imprests and advances to authorized public officers and/or institutions which were not surrendered or accounted for at the end of the financial year is treated as receivables. This is in recognition of the government practice where the imprest payments are recognized as payments when fully accounted for by the imprest or AIE holders. This is an enhancement to the cash accounting policy. Other accounts receivables are disclosed in the financial statements.

f) Pending bills

Pending bills consist of unpaid liabilities at the end of the financial year arising from contracted goods or services during the year or in past years. As pending bills do not involve the payment of cash in the reporting period, they recorded

as 'memorandum' or 'off-balance' items to provide a sense of the overall net cash position of the Project at the end of the year. When the pending bills are finally settled, such payments are included in the statement of receipts and payments in the year in which the payments are made.

g) Budget

The budget is developed on a comparable accounting basis (cash basis), the same accounts classification basis (except for accounts receivable - outstanding imprest and clearance accounts and accounts payable - deposits, which are accounted for on an accrual basis), and for the same period as the financial statements. The Project's budget was approved as required by Law and National Treasury Regulations, as well as by the participating development partners, as detailed in the Government of Kenya Budget Printed Estimates for the year. The Development Projects are budgeted for under the MDAs but receive budgeted funds as transfers and account for them separately. These transfers are recognized as inter-entity transfers and are eliminated upon consolidation.

A high-level assessment of the Project's actual performance against the comparable budget for the financial year/period under review has been included in an annex to these financial statements.

h) Third party payments

Included in the receipts and payments, are payments made on its behalf by to third parties in form of loans and grants. These payments do not constitute cash receipts and payments and are disclosed in the payment to third parties column in the statement of receipts and payments.

i) Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the Project operates, Kenya Shillings. Transactions in foreign currencies during the year/period are converted into the functional currency using the exchange rates prevailing at the dates of the transactions. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statements of receipts and payments.

j) Comparative figures

Where necessary comparative figures for the previous financial year/period have been amended or reconfigured to conform to the required changes in financial statement presentation.

k) Subsequent events

There have been no events subsequent to the financial year/period end with a significant impact on the financial statements for the year ended 30 June 2019.

l) Errors

Material prior period errors shall be corrected retrospectively in the first set of financial statements authorized for issue after their discovery by: Restating the comparative amounts for prior period(s) presented in which the error occurred; or ii. If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented.

NOTES TO THE FINANCIAL STATEMENTS

1. PROCEEDS FROM DOMESTIC AND FOREIGN GRANTS

During the 12 months to 30 June 2019, we received grants from donors as detailed in the table below:

Name of Donor	Grants received in cash	Total amount in KSHS		
		FY 2018/19	FY 2017/18	Cumulative to-date
	KSHS	KSHS	KSHS	KSHS
Grants Received from World Bank				
Grant-World Bank	346,111,690.00	346,111,690.00	392,537,200.00	8,242,001,006.00
Transfer from IDA				66,969,172.50
Total	346,111,690.00	346,111,690.00	392,537,200.00	8,308,970,178.50

2 COMPENSATION OF EMPLOYEES

	FY 2018/2019			FY 2017/18	
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments		Cumulative to-date
	KSHS	KSHS	KSHS	KSHS	KSHS
Basic wages of temporary employees	53,552,192.00		53,552,192.00	95,316,475.50	232,461,427.45
Total	53,552,192.00		53,552,192.00	95,316,475.50	232,461,427.45

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 PURCHASE OF GOODS AND SERVICES

	FY 2018/19			FY 2017/18	
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments	Total Payments	Cumulative to-date
	KSHS	KSHS	KSHS	KSHS	KSHS
Communication, Supplies and Services	1,998,500		1,998,500	4,357,217	41,694,106
Domestic Travel and Subsistence, and Other Transportation Costs	27,485,667		27,485,667	32,882,838	327,058,577
Foreign Travel and Subsistence, and other transportation costs				1,183,284	10,780,086
Printing, Advertising and Information Supplies and Services	11,240,135		11,240,135	13,612,920	135,258,081
Courier & Postal Services					262,149
Rentals of Produced Assets				7,021,480	63,967,873
Training Expenses				7,763,462	70,727,560
Hospitality Supplies and Servi	2,170,000		2,170,000	6,757,300	63,731,110
Specialized Materials and Suplies				420,000	3,826,331
Office and General Supplies and Services				10,127,540	92,265,048
Fuel Oil and Lubricants				1,274,900	11,614,737
Other Operating Expenses	64,967,351		64,967,351	63,271,040	641,386,258
Routine Maintenance - Vehicles				310,499	2,566,594
TOTAL	107,861,652		107,861,652	148,982,480	1,465,138,510

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 ACQUISITION OF NON-FINANCIAL ASSETS

	FY 2018/19			FY 2017/18	
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments	Total Payments	Cumulative to-date
	KSHS	KSHS	KSHS	KSHS	KSHS
Construction of Building				4,823,850	4,823,850
Refurbishment of Buildings					8,552,678
Purchase of MV	274,627,380		274,627,380	39,176,701	313,804,081
Purchase of Office Furniture and General Equipment	5,145,979.85		5,145,979.85	21,994,830	92,959,586
Purchase of ICT Equipment's					52,334,533
	279,773,359.85		279,773,359.85	65,995,381	472,474,728

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 OTHER GRANTS AND TRANSFERS AND PAYMENTS

	FY 2018/19			FY 2017/18	
	Payment s made by the Entity in Cash	Payments made by third parties	Total Payments	Total Payments	Cumulative to-date
	KSHS	KSHS	KSHS	KSHS	KSHS
Grants to Individuals	0		0	0	6,131,448,295
Total	0		0	0	6,131,448,295

6 CASH AND CASH EQUIVALENTS CARRIED FORWARD

	2018/19	2017/18
	KSHS	KSHS
Cash equivalents	0	102,522,733.30
Total	0	<u>102,522,733.30</u>

The project has one project accounts spread within the project implementation area and one number of foreign currency designated accounts managed by the National Treasury as listed below:

6.1 A Bank Accounts

Project Bank Accounts

	2018/19	2017/18
	usd	KShs
<u>Foreign Currency Accounts</u>		
Co-operative Bank of Kenya [02120134198100]	0	
Total Foreign Currency balances	<u>0</u>	
<u>Local Currency Accounts</u>	KES	KES
Central Bank of Kenya [1000311304]	0	102,522,733.30
Total Local Currency balances	0	102,522,733.30

Note; the fund balance of Ksh 7,447,219 was refunded to the World Bank in March 2019 upon the closure of the Project on 31 December 2018.

PRIOR YEAR AUDIT ISSUES

S/ N	AUDIT ISSUE RAISED		MANAGEMENT RESPONSE	STATUS
1	Assets Management	It was however noted that the Project did not have a complete asset register contrary to the Part XII of PFM Act, 2012 on assets management	The State Department created a comprehensive asset register for the entire Ministry which include assets purchased by project funds.	Resolved
2	Failure to Provide Cash Transfer Reconciliation Reports by the Service Providers (PSPs)	In accordance with the contract agreements signed between the State Department and the individual service providers are required to provide reconciliation reports for the funds received and disbursed to the beneficiaries.	Because of the bulkiness of the reports due scale up of beneficiaries of Cash Transfers Programme, the service providers has instead has availed access rights to the project officers into their systems to enable them view the reports as and when required.	Resolved
3	Deceased Beneficiaries	Payroll records for the year under review disclosed that some deceased persons were retained in the list of beneficiaries for prolonged periods before being removed from the payrolls	The State Department has rolled out strategic intervention to clean up the payroll through the new payment solutions which is account based, and signed New Contract with Payment Service Providers .it has also enhanced MIS to solve the problem.	Resolved
4	Failure by Service providers to submit Reports on Time Barred transfers to beneficiaries	Failure by Service providers to submit Reports on Time Barred transfers to beneficiaries	Reports on time bared transfers to the beneficiaries is one of the reports available in the bank systems and because of the bulkiness of the reports, they are readily available online and could be accessed by project staffs already defined in the systems	Resolved

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5	Over-Payment of Bank Commission to KCB Bank	Over-Payment of Bank Commission to KCB Bank	The contract does not stipulate that commissions paid to the bank are on the total funds received from the State Department resulting to overpayment of commission as tabulated but rather on the actual transfers made to beneficiaries. And therefore there was no overpayment of commission.	Resolved
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Principal Secretary
Nelson Marwa Sospeter, CBS



Project Coordinator
John Gachigi



Project Accountant
Moses O. Muga
ICPAKM/No: 14266

**ANNEX 1 - VARIANCE EXPLANATIONS - COMPARATIVE
BUDGET AND ACTUAL AMOUNTS**

	Original Budget	Adjustment s	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization	Comments on Variance
	a	b	c=a+b	d	e=c-d	f=d/ c %	
Receipts							
Proceeds from domestic and foreign grants	48,000,000	397,199,603	445,199,603	346,111,690	99,087,913	78%	Closing fund balance for the FY 2017/18 saw utilised to fund the current year activities
Total Receipts	48,000,000	397,199,603	445,199,603	346,111,690	99,087,913		
Payments							
Compensation of employees	48,000,000	(88,409)	47,911,591	53,552,192	(5,640,601)	112 %	Over utilization was due to payment of Gratuity to contract staffs
Purchase of goods and services	-	103,642,397	103,642,397	107,861,652	(4,219,255)	104 %	overutilization due to closure of the project and clearance of all pending bills

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Acquisition of non-financial assets	-	293,645,615	293,645,615	279,773,360	13,872,255	95%	Utilization is within the threshold
Total Payments	48,000,000	397,199,603	445,199,603	441, 187,204	4,012,399		

